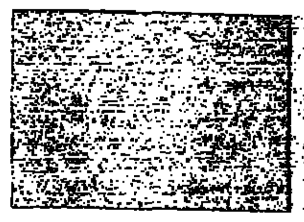
# FINANCIAL TIMES


**Multimedia**
*Time Warner's juggling act*
Page 14


**Dateline: Tokyo**
*Japan still confused by its past*
Page 8


**Today's surveys**
*Emerging markets*
*Manchester as a Financial centre*
Separate sections


**The arts**
*Nigel Andrews at the Berlin film festival*
Page 13

World Business Newspaper MONDAY FEBRUARY 20 1995 D8523A

## Italy to unveil tough mini-budget details this week

Italy's month-old government is expected to unveil this week details of a tough L20,000bn ($12.4bn) mini-budget that relies heavily on raising taxes. The government, composed of non-parliamentarians, has been pressed hard by the financial markets to act quickly to restore Italy's troubled public finances. Lamberto Dini, the premier and former director-general of the Bank of Italy, faces serious problems in finding the necessary parliamentary backing for his proposals. Page 2; Lex, Page 16

**France turns to Germany:** The Balladur government is considering revising the 1963 Elysée treaty, in order to reinforce France's cultural, parliamentary and regional ties with Germany. Page 2

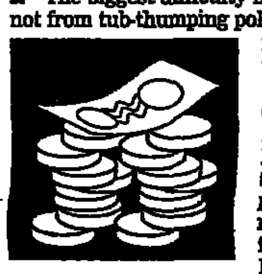
**New leader for Portugal's ruling party:** Portugal's ruling Social Democrats (PSD) yesterday narrowly elected Fernando Nogueira, the defence minister, to succeed Aníbal Cavaco Silva as party leader and candidate for prime minister in a general election that could be called by June. Page 2

**Crédit Lyonnais,** the French loss-making state-controlled bank, may have to meet tight new financial targets as part of the restructuring currently at an advanced stage of talks with the French government. Page 17

**US upgrades trade talks:** The US will this week upgrade its representation in talks with China over copyright issues. A US deputy trade representative is to arrive in Beijing tomorrow to take charge of the talks over curbing piracy and counterfeiting of intellectual property in China. Page 4

**Banco Santander,** Spain's biggest banking group, plans a Pta350bn ($350m) convertible bond issue as part of a growth strategy that includes greater control over its subsidiary Banco Español de Crédito (Banesto), and further foreign expansion. Page 19

### The Emu debate



■ "The biggest difficulty in the face of Emu stems, not from tub-thumping politicians, but from the fright that bankers and traders have taken at the complexities and costs of converting national currencies." Samuel Brittan, Page 16

■ "Yes, Mr Clarke, it is possible for a single currency to operate without further political union. But it is hardly likely." Martin Wolf, Economic Eye, Page 22

**EU animal transport:** The European Commission and France, which currently holds the EU presidency, are determined to break the deadlock over time limits for the transport of live animals at a meeting of ministers today. Page 3

**Political merger threatens Çiller:** Two of Turkey's three social democratic parties voted to merge at the weekend, renewing uncertainty over the future of prime minister Tansu Çiller's coalition government. Page 3

**NAACP drops chief:** The National Association for the Advancement of Colored People, plagued by scandal but still the largest US civil rights organisation, has thrown out its chairman and installed in his place the widow of a civil rights leader murdered three decades ago. Page 6

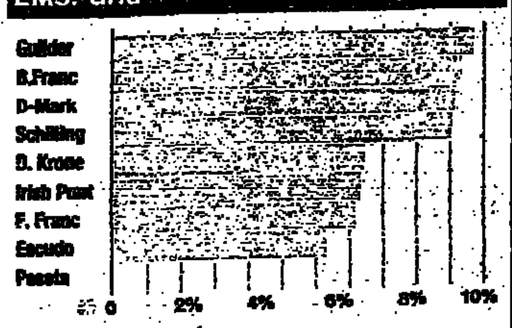
**New name for Saatchi & Saatchi:** A proposal to rename Saatchi & Saatchi "Cordiant plc" will be received by the advertising agency group's shareholders today. The name change is supposed to express "the new spirit within the company, characterised by accord and shared purpose". Page 17

**Names face accounts change:** Lloyd's of London insurance market is considering treating some debts owed by loss-making members as assets, which could make it easier for it to pass solvency tests. The initiative will affect Names in the US and Canada as well as those in the UK. Page 7

**Costs of a call:** Dramatic differences in the cost of telephone services in Europe and elsewhere have been shown up in a survey of tariffs drawn up by organisations representing users worldwide. Page 7

**European Monetary System:** In a week of general D-Mark strength on the foreign exchanges, the only change in the EMS grid was the Danish krone climbing above the franc and the punt. The Portuguese central bank was twice reported supporting the escudo. The spread between strongest and weakest currencies was little changed. Currencies, Page 25

**EMS: Grid** February 17, 1995




*The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.*

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Austria | Sch35 | Greece | Dr400 | Malta | Lm0.60 | Qatar | QR13.00 | | |
| Bahrain | Din1.250 | Hong Kong | HK$18 | Morocco | MDh15 | S.Arabia | SR11 | | |
| Belgium | BFr70 | Hungary | Ft185 | Neth | Fl 4.25 | Singapore | S$4.30 | | |
| Bulgaria | Lev40.00 | Iceland | IKr220 | Nigeria | Naira60 | Slovak Rp | KSL60 | | |
| Cyprus | C£1.10 | India | Rs75 | Norway | NKr20 | S. Africa | R12.00 | | |
| Czech Rp | CZK55 | Israel | Shk7.50 | Oman | OR1.50 | Spain | Pta225 | | |
| Denmark | DKr17 | Italy | L3000 | Pakistan | Rs40 | Sweden | SKr17 | | |
| Egypt | E£5.00 | Japan | Y500 | Philippines | Peso60 | Switz | SFr3.60 | | |
| Estonia | EEK30 | Jordan | JD1.50 | Poland | Zl 42,000 | Syria | S£50.00 | | |
| Finland | FM15 | Kuwait | Fils625 | Portugal | Esc250 | Tunisia | Din1.500 | | |
| France | FFr10.50 | Lebanon | US$1.50 | | | Turkey | L40,000 | | |
| Germany | DM3.50 | Lux | LFr70 | | | UAE | Dh12.00 | | |

# Associate of Deng family is arrested in Beijing

**By Tony Walker in Beijing and Simon Holberton in Hong Kong**

China has detained on suspicion of corruption one of its most prominent businessmen, who is also a close associate of the younger son of Deng Xiaoping, the senior Chinese leader.

The official Xinhua news agency said Zhou Beifang, chairman of Shougang (Hong Kong), had been arrested in Beijing and was being questioned by the public prosecutor's office. The agency gave no details of Mr Zhou's alleged wrongdoing and no indication as to whether it might concern activities in China or Hong Kong, where he has been resident since 1992.

This is the most notable arrest of a Chinese public figure since the country launched an anti-corruption drive in August 1993.

The arrest has drawn further unfavourable attention to the business activities of what are known in China as princelings – the sons and daughters of prominent officials – and raised questions about the influence of the Deng clan.

A Shougang spokesman in Hong Kong said Mr Zhou junior had been suspended from his post pending investigation of his alleged involvement in "economic crimes" – a phrase commonly used to mean corruption.

Mr Zhou headed a group of companies in Hong Kong involved in property, finance and trading. They included the publicly listed Shougang Concord Grand, of which Mr Deng Zhifang, Deng Xiaoping's younger son, is vice-chairman and chief executive.

There is no suggestion that Mr Deng junior has committed any misdemeanour. However, analysts in Hong Kong said it was significant, in the light of uncertainties about leadership in China, that the authorities in Beijing had felt able to move against a close associate of the Deng clan.

Mr Zhou Beifang's father, Zhou Guanwu, was until last week chairman and party secretary of the Shougang (Capital) Iron and Steel Works in Beijing, China's fourth-largest enterprise. He is an old friend of Deng Xiaoping and was a military commander under Mr Deng in China's revolutionary war, which ended in 1949.

His long association with Mr Deng was the basis for the privileges granted to Shougang, enabling it to establish companies in Hong Kong and the US, buy an iron ore mine in Peru, gain a banking licence in China and secure the capital for domestic expansion.

The Beijing municipality announced last week that 77-year-old Mr Zhou senior had stepped down in accordance with his own wishes. His son's arrest, however, casts a different light on his departure.

The arrest of Zhou Beifang is also a potential embarrassment

Continued on Page 16

# Europe steps up efforts to strengthen ties with US

**By Lionel Barber in Brussels**

Europe's leaders are stepping up the search for a new deal with the US to reinforce the political and military ties which have underpinned security on the European continent since 1945, amid signs of growing strain in the transatlantic alliance.

Fears in Europe over the direction of US foreign policy intensified last week after the US House of Representatives passed a resolution which would cut or even eliminate contributions to UN peacekeeping, limit presidential powers in foreign and defence policy, and push the Nato alliance towards early expansion into central Europe.

A consensus is emerging at the highest levels in Brussels that a new effort is required to redefine the transatlantic alliance, given the new mood in the US Congress.

One senior European diplomat expressed his concern this weekend at the ability of the Clinton administration to manage the newly assertive US legislature in the run-up to the 1996 presidential elections.

At the same time a divisive debate is looming about Nato enlargement, which the US is pushing despite European worries about triggering a Russian nationalist backlash.

Chancellor Helmut Kohl of Germany recently urged President Bill Clinton to avoid spelling out a timetable for Nato enlargement. But in a forthcoming article in Foreign Affairs magazine, Mr Richard Holbrooke, the senior State Department official responsible for European affairs, makes it clear that Nato intends to present the "how" and "why" of enlargement in the autumn.

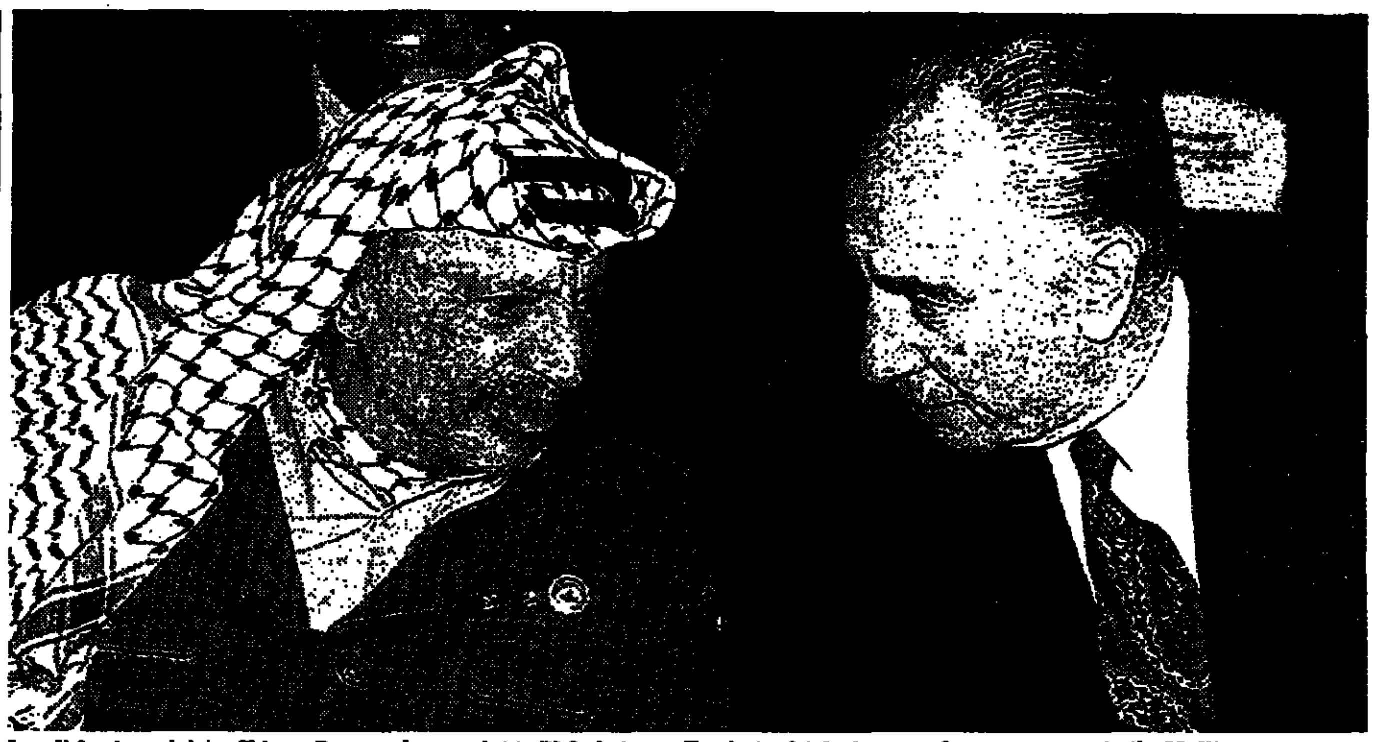
"Nato expansion is a mistake," said a French diplomat, "but ... no-one wants to say 'No' because of the bad experience over Bosnia and the need to keep the US engaged in Europe."

French and German ministers have proposed a new security treaty between Nato and Russia. But this has upset potential Nato candidates such as the Czech Republic, Poland and Hungary who are wary about a treaty with Moscow which could undercut central Europe.

Various European proposals in recent weeks reflect unease about the "America First" agenda of the Republican-led Congress. They include:

- Mr Jacques Santer, European Commission president, calling for a "genuine transatlantic treaty". A likely first step is a pact on the treatment of investment, with a more ambitious goal being a transatlantic single market.
- Mr Malcolm Rifkind, UK defence secretary, advocating an Atlantic Assembly to bring together US senators, congressmen and parliamentarians to discuss security and other transatlantic issues.
- A report by the Transatlantic Policy Network, a coalition of European parliamentarians and multinational companies, calling for a new political treaty between the US and EU.

Effort to set up works councils, Page 7; The Third Pillar, Page 8; Samuel Brittan, Page 14; Letters, Page 14; Editorial Comment and Observer, Page 15; Nato agenda for Europe, Page 15; EU finance ministers, Page 16; Economic eye, Page 20



Israeli foreign minister Shimon Peres makes a point to PLO chairman Yassir Arafat during a conference on peace in the Mediterranean region held in Paris. Mr Arafat accused Israel of obstructing the Mideast peace process and slowing its evacuation of occupied areas. Reuter

# Moscow bans tobacco, alcohol adverts

## Yeltsin acts in the wake of alarming increases in Russia's mortality rates

**By John Thornhill in Moscow**

President Boris Yeltsin has moved to ban the advertising of alcohol and tobacco products and the services of quack doctors in an attempt to halt the alarming rise in Russia's mortality rates.

The decision is likely to enrage many western multinationals now expanding in Russia and may undermine the finances of some Russian media organisations.

According to a presidential decree announced on Saturday, any Russian media organisation breaking the ban will be sued and the resultant fines will be recycled into public health programmes.

Mr Yeltsin's move follows an inconclusive parliamentary debate about a draft law on advertising restrictions.

Russia's advertising market, which has grown at a frantic rate in the past three years, has been subject to few government controls, causing outrage among the victims of the claims of unscrupulous advertisers and financial fraudsters. The lack of controls has also caused concern among the health authorities alarmed at the rise in alcohol and tobacco consumption.

But the effectiveness of the ban, which comes into effect as soon as the presidential decree is published, is bound to be called into question. Theoretically, many alcohol and tobacco advertisements are already banned under health laws.

The Russian advertising industry, backed by international industry bodies, has been lobbying the government to forestall state regulation, arguing that self-regulation would prove more effective. The big Russian and foreign tobacco companies have already drawn up a code of practice promising to limit their television advertising to late-evening slots and refrain from displaying posters near schools.

Nonetheless, huge wall paintings of the Marlboro cowboy adorn the walls of several Moscow buildings. The ubiquitous symbol of the cigarette brand owned by the US multinational Philip Morris has quickly replaced Lenin as the most visible figure in the Russian capital. Some estimates suggest spending on alcohol and tobacco advertising accounts for up to 8 per cent of the total.

The presidential press office said the government would review the decree's effectiveness three months after its publication.

Russian poll looms: Fears over the 'Chechnya effect'; Russia and Ukraine step up arms co-operation, Page 2 Tobacco giants draw new fire, Page 16

# Britain and Ireland near agreement on Ulster paper

**By Kevin Brown in London and John Murray Brown in Belfast**

The British and Irish governments were putting the final touches to a framework document for all-party Northern Ireland peace talks yesterday in readiness for a summit meeting, probably in Belfast on Wednesday.

Mr John Major, the UK prime minister, and Mr John Bruton, his Irish counterpart, were expected to give the go-ahead for the summit today or tomorrow, following negotiations on a handful of outstanding minor issues over the weekend.

Mr Dick Spring, the Irish deputy prime minister, said an understanding had been reached on the controversial issue of changes to articles 2 and 3 of the Irish constitution, which assert a territorial claim to Northern Ireland.

"The exact wording has not been agreed, but I think there is an understanding between both governments that constitutional change will take place, obviously in the context of other things happening as well," he said.

It is understood that the agreement will commit the Irish government to hold a referendum on replacing the territorial claim to Northern Ireland with an aspiration to unity, in return for changes to the UK's Government of Ireland Act.

The UK legislation, which dates from 1920, will be amended to reflect the UK's acceptance in last year's Anglo-Irish Downing Street declaration that British rule relies on the consent of the Northern Ireland people.

Sir Patrick Mayhew, UK Northern Ireland secretary, reported to Mr Major yesterday on the final round of talks with Mr Spring in Dublin on Saturday, which paved the way for publication of the document after two years of negotiations.

The final version of the framework document still has to be approved by ministers at an emergency cabinet meeting or a gathering of the Northern Ireland committee. However, agreement is certain following cabinet discussions last week.

The UK government will also publish separate proposals for a Northern Ireland assembly, to be elected by proportional representation, which would restore a measure of self-government to Ulster for the first time for two decades.

Mr James Molyneaux, the Ulster Unionist party leader, reaffirmed his determination to boycott all-party talks if the framework document contains proposals for cross border bodies with executive powers.



CONTENTS



 No 32,605 Week No 8 LONDON · PARIS · FRANKFURT · STOCKHOLM · NEW YORK · TOKYO

Balladur government wants to reinforce cultural and parliamentary links with its neighbour

# France seeks to deepen ties with Germany

By David Buchan in Paris

The Balladur government is considering revising the 1963 Elysée treaty, cornerstone of the Bonn-Paris relationship, to reinforce France's cultural, parliamentary and regional ties with Germany.

The initiative stems from Prime Minister Edouard Balladur's call last November, on the eve of a regular Franco-German summit in Bonn, for "a new Elysée treaty" to deepen ties between the two countries.

The idea of a new treaty was not enthusiastically greeted in Bonn. According to German diplomats, Bonn feels the current treaty is working well with its elaborate consultative mechanisms of twice-yearly summits, joint councils of finance and defence ministers, and a very active youth exchange programme. Bonn also fears a new treaty might appear to its European partners to make the Franco-German relationship too exclusive, but it is open to any useful addition to the existing accord.

But when he invited Chancellor Helmut Kohl in early January to his holiday home in Chamonix, Mr Balladur told the German leader he would like to pursue the idea of at least filling in the gaps in the present treaty.

French officials see two major gaps:

■ Language training. Despite the fact that nearly 5m young Germans and French have visited each other's countries under the auspices of the Franco-German Youth Office over the past 30 years, knowledge of each other's language remains very low. In the context of its general crusade to promote European culture, most evident on the issue of TV broadcasting quotas, France is also keen to see at least two foreign languages taught in the European schools, as a means of blunting the primacy of English.

■ Parliamentary and regional links. Under the Elysée treaty, institutional ties are exclusively between the executive branches of the countries' central governments. But French officials believe the time has come to widen these links.

Despite the mismatch between the two legislatures, with the Bundestag playing a far more powerful role in the German parliamentary system than the National Assembly in the French presidential system, the two bodies are beginning to speak to each other, particularly their finance committees on the issue of European monetary union. The idea of a treaty revision would be to formalise this incipient dialogue.

Likewise, Germany's 15 Länder have stronger powers than France's 22 regions, but French officials see scope for strengthening a dialogue that has already started within the multilateral forum of the European Committee of Regions, set up by Maastricht.

Both countries have appointed former ministers – Mr Gerhard Stoltenberg for Germany and Mr André Bord for France – as their "co-ordinators for Franco-German relations". One idea which seems to have emerged from the German side is that these co-ordinators might sit on cabinet meetings in Paris and Bonn when Franco-German issues are discussed, or that, in a show of union, just one co-ordinator – either a German or Frenchman – might be given a higher rank and allowed to attend cabinet sessions on either side of the Rhine.

Mr Balladur does not apparently want to be accused of playing "the German card" during the French presidential election, and is not therefore pushing for agreement before May.

FDP's Ruth Wagner: energetic campaigning

CDU chief Manfred Kanther: lower vote but largest party

# SPD coalition heads for win in Hesse election

By Judy Dempsey in Berlin

The incumbent Social Democratic-led government (SPD) in the German state of Hesse was last night heading for clear victory after the Greens, its coalition partner, made sweeping gains in the first state polls since the federal elections last October, according to two exit polls.

At the same time, the Free Democrats (FDP), the junior partner in Chancellor Helmut Kohl's governing coalition, managed to reverse a string of election defeats after jumping above the 5 per cent hurdle, the minimum percentage of votes required to enter the state parliament.

"This is a chance for the FDP to reverse its recent defeats," said Mr Wolfgang Gerhardt, a member of the liberal's federal board and head of the Hesse party organisation.

In exit polls conducted for ARD, channel one state television, and ZDF, the second channel, the SPD led by Mr Hans Eichel, the prime minister of Hesse, and the Christian Democrats (CDU), led by Mr Manfred Kanther, the federal interior minister, suffered losses since the last state election in 1991.

According to ZDF, the SPD's vote fell by about 1.5 per percentage points to 38.7 per cent. However, by last night, the CDU, whose vote fell from 40.2 per cent to 38.9 per cent, became the largest party but with insufficient votes to form a coalition.

But it was the Greens and its candidate Ms Iris Blaul, Hesse's minister for youth, family and health, which made spectacular gains, increasing the party's vote share from 8.8 per cent in 1991 to 11.5 per cent.

The surge in support of the Greens is partly due to their higher profile in Germany's Bundestag, or lower house, where Ms Antje Vollmer, a leading member, is one of the deputy speakers. But the Greens also focused on local issues, Mr Fritz Hertle, a Green official said last night.

According to ZDF's latest exit polls, the Greens won 13 of the 110 seats and the SPD 44, ensuring them a comfortable majority over a combined CDU/FDP bloc which have 45 and 8 seats respectively.

There was relief among the FDP camp which was set to gain about 6.2 per cent of the vote, despite failing to win any seats in nine state parliamentary elections over the past two years.

Its candidate Ms Ruth Wagner helped to reverse a string of recent election defeats by energetic campaigning. This reversal will dilute speculation for the moment that the federal CDU-led coalition was unstable.

# Dini to unveil mini-budget details this week

By Robert Graham in Rome

The Dini government is due to unveil this week details of a tough L20,000bn (£8bn) mini-budget that relies heavily upon raising taxes.

The one month-old government composed of non-parliamentarians has been under strong pressure from the financial markets to act quickly to restore Italy's troubled public finances.

But Mr Lamberto Dini, the premier and former director-general of the Bank of Italy, faces serious problems in finding the necessary parliamentary backing for his proposals. In particular Mr Silvio Berlusconi, the former prime minister who was responsible for recruiting Mr Dini to the Treasury Ministry in the previous government, has been threatening to block the budget.

Last week the Bank of Italy was obliged to intervene on at least two days to support the lira, which reached new lows against the D-Mark as the politicians bickered over their support for the government.

Mindful of these conflicting pressures, Mr Dini issued a statement pledging the mini-budget would not limit itself to one-off revenue-raising measures, but would introduce structural changes in the use of public funds.

He also said concrete plans for privatisation would be linked to the budget statement. However, the government has yet to state when the budget will be announced, with reports varying between Tuesday and Thursday.

One hopeful sign over the weekend was an further softening in the hardline position of Mr Berlusconi. He was apparently stung by criticism from Mr Dini who in an interview accused politicians of acting irresponsibly by threatening to reject the budget.

Although Mr Berlusconi was not named, he was clearly identified since he has been linking any support for the budget to the fixing of a firm date for fresh general elections in June. Back-tracking, Mr Berlusconi answered Mr Dini saying: "I have never said there was a link between the budget and elections. We will assess the budget, giving where needed our contributions, and then we will show once again our sense of responsibility."

The growing consensus among the political parties on the need to back the budget to avoid further damage to the lira will not prevent the measures themselves being scrutinised and changed in parliament.

Mr Berlusconi and his Forza Italia movement are anxious to be seen as tax cutters. As such they have voiced concern over the new government's aim to rely mainly on fresh taxes to cover the L20,000bn needed to hold down the 1995 deficit to the planned L138,000bn – equivalent to 8 per cent of GDP.

Mr Dini sought to reassure the former premier over the weekend, stating there would be spending cuts as well. Because of the difficulty of finding specific cuts when implementation of the 1995 budget has already started, the government may resort to a cross-the-board trim of say one percentage point of overall spending.

But as Mr Dini moves on the economic front, the problems facing his technocratic administration have been highlighted by attempts to introduce new rules for fair media coverage of elections. The proposals, agreed at a cabinet meeting on Friday, involve draconian reporting and propaganda restrictions backed by a complex monitoring system.

Though clearly well intentioned, the ideas have been greeted with a mixture of dismay and ridicule as being unworkable.

# Cavaco Silva's successor chosen

By Peter Wise in Lisbon

Portugal's ruling Social Democrats (PSD) yesterday elected Mr Fernando Nogueira, the defence minister, to succeed Mr Aníbal Cavaco Silva as party leader and candidate for prime minister in a general election that could be called by June.

Mr Nogueira, 44, was chosen by a narrow margin over Mr José Manuel Durão Barroso, the foreign minister, in a vote that split delegates of the centre-right party almost evenly. His immediate challenge will be to heal the rift caused by the leadership struggle in the party and the government.

President Mário Soares, a Socialist, has indicated he will consider bringing forward a general election scheduled for October if the PSD succession threatens to undermine the government's authority or damage economic confidence. Opinion polls currently show the opposition Socialists several points ahead of the PSD.

Mr Nogueira stands for continuity of the pro-market policies of Mr Cavaco Silva, who will remain prime minister until the election but immediately hand over the party leadership to Mr Nogueira. Mr Cavaco Silva is stepping down after a decade in office.

Mr Cavaco Silva, strongly opposed to an early election, said yesterday he would ask all his ministers to remain in office, regardless of the opposing sides they had taken in the battle to succeed him.

Mr Durão Barroso pledged full support for Mr Nogueira's leadership and the PSD congress approved a motion of confidence in the government.

The bearded Mr Nogueira, one of Mr Cavaco Silva's closest collaborators for 10 years, is respected as intelligent, hard-working and competent. He undertook the delicate task of reshaping Portugal's armed forces as their role diminished following colonial wars in Africa that ended in 1974.

He drew support from the PSD party bureaucracy and provincial delegates wary of radical change. But polls showed Mr Durão Barroso, 38, was more popular in the country as a whole and more likely to lead the PSD to victory in the general election.

Polls suggest a minority government is most likely to emerge from the next election.

Acknowledging the PSD's waning popularity – partly because of allegations of graft and corruption – Mr Nogueira told the congress that PSD politicians would have to chose between serving the party or pursuing business careers.

Fernando Nogueira, Portugal's defence minister (right), flanked by gesturing premier and present Social Democrat chief Aníbal Cavaco Silva, was voted party leader yesterday EPA

# Lenders push on with efforts to agree packages for Russia

IMF has discounted the 'Chechnya effect', writes **John Lloyd**

The war in Chechnya has not significantly affected the determination of the main international financial institutions to continue large lending programmes to Russia, although senior officials of these institutions expect increased pressure from a Republican-controlled US Congress hostile to an overly pro-Russian policy.

Officials' fears of the cost of the Chechen war have been soothed by Russian Finance Minister Vladimir Panskov's assurances that the expenses can be absorbed within the 1995 budget. The net effect of the war on the Russian economy and on its ability to continue to attempt economic reform is thus seen as marginal.

The International Monetary Fund is now in the closing stages of negotiations with the Russian government on loans totalling as much as $13bn (£8.3bn) over the next year. It expects to reach agreement on a budget and economic strategy and to start lending by early spring. The loans will be phased in, and will be strictly dependent on performance.

The IMF fears not so much the "Chechnya effect" as the normal expenditure pressures of late summer and autumn on the Russian budget, which have in past years punctured monetary discipline.

The World Bank, which is gearing up to lend around $3bn this year and for each of the next four years has doubts about lending to Russia in general, but not about Chechnya.

World Bank officials are focusing on the oil exports regime, where a system of external quotas has been replaced by more informal but, says the Bank, still effective controls which ensure the domestic oil price remains less than half the world level.

Until this anomaly is addressed the Bank believes Russia's attempts to reform and to attract investment will be crippled.

The International Finance Corporation, the World Bank affiliate which works exclusively in the private sector, is now stepping up efforts to assist the establishment of a Russian securities market. It is planning to invest in brokerage companies to raise the level of service offered to Russian and foreign investors.

The IFC is also investing in Russian companies. An $11m investment in the Volga paper plant in Nizhny Novgorod has secured it a 25 per cent stake, and it is now working to increase the plant's exports.

Officials of these institutions acknowledge the severity of the problems of introducing change in Russia and none was certain that economic reforms would go well this year. However, they believe that the will remains within the government to bear down on inflation and to cut the budget deficit, and they are encouraged by signs that the fall in production appears – from January's figures only – to be levelling off.

International lending institutions officials took heart from President Boris Yeltsin's speech to the Russian parliament last week, in which he recognised that, after twice failing, a "third attempt to halt inflation must succeed" because the international financial agencies "expect this from us".

The acknowledged problem, however, is on the political side. The US administration is under fire from the Republican majority in Congress for its perceived "Russia first" policy, which translates into giving extensive aid and support to Russia. This fire could soon be aimed at the financial institutions as well.

Senior administration officials, seeking to deflect the Republican critique, acknowledge that Chechnya could mark a watershed for Russian politics and for its relations with the west. However they say the continuing revolution in Russia will be marked by high and low points, and the US and the major western countries must continue to support reform and an elected president who still has a chance to further it.

# Russian parties vie for gains as terrain shifts

By John Thornhill in Moscow

The Chechen conflict and the increasing isolation of President Boris Yeltsin are beginning to reshape Russia's parliamentary landscape as various political factions jostle for advantage ahead of the elections scheduled for the end of the year.

This weekend Mr Boris Fyodorov, the outspoken former finance minister, called the first congress of a new political movement known as Forward Russia, which seemingly echoes many of the populist political themes associated with Mr Silvio Berlusconi's Forza Italia movement.

Forward Russia, which includes representatives from 74 Russian regions, intends to form a constructive democratic opposition to the government and encourage bolder economic reforms. Mr Fyodorov said the movement would also press for an amendment to the constitution allowing the biggest parliamentary faction to form the government.

Mr Fyodorov said Forward Russia would be naturally allied to the liberal parliamentary groupings such as Yabloko and Russia's Choice. This would help to consolidate the strength of Russia's reformers ahead of the parliamentary elections, which Mr Yeltsin recently confirmed would take place in December.

But Russia's Choice, the biggest of the liberal factions which before the Chechen war provided the mainstay of Mr Yeltsin's parliamentary support, is itself staking out new political ground resulting in considerable internal dissension. Mr Oleg Boiko, the wealthy businessman who largely bankrolls the faction, has publicly criticised the vocal opposition of the Chechen war and is growing increasingly isolated from the faction's leader, Mr Yegor Gaidar.

Other members of Russia's Choice have already deserted the faction to join a newly formed grouping, Stability, which is trying to rebuild support for Mr Yeltsin within parliament.

Last week, Mr Grigory Yavlinsky, leader of the Yabloko parliamentary faction, rejected suggestions that the liberal groupings should form an electoral bloc, saying the majority of voters did not trust the Russia's Choice faction.

The Russian public associates Mr Gaidar with the unpopular price liberalisation policy he introduced when prime minister.



# Russia, Ukraine step up arms co-operation

By Matthew Kaminski in Kiev

Russia and Ukraine at the weekend stepped up military co-operation efforts by forming an industrial group to build aircraft, sell arms and supply parts in the aerospace sector.

International Air Engines, bringing together military-industrial enterprises *hurt by the Soviet Union's collapse in* both countries, marks the first large joint effort in this field and reflects an increasing thaw in long strained relations between the two biggest former Soviet republics.

The military pact follows preliminary agreement on Friday on Ukraine's gas debt and earlier on a co-operation treaty and division of the Black Sea Fleet.

Defence officials from the two countries also agreed over the weekend to continued development of the Antonov 70 cargo aircraft after a pilot model crashed on February 10. Mr Viktor Glubkyk, head of Russia's state committee on the defence industry, said the Russian military wants to replace the ageing Ilyushin-76 with 400 AN-70s, which can carry 35 tonnes of cargo with a range of 5,000 km.

Mr Glubkyk also said Russia wants to buy arms from Ukraine's large mili*tary-industrial complex in the coun*try's eastern industrial swathe. He called Yuzhmash in Dnipopetrovsk, the world's largest nuclear missile plant formerly headed by Ukrainian president Leonid Kuchma, a "principal source of rockets" for Russia.

Mr Valery Shmarov, Ukraine's defence minister, endorsed plans to build 19 Tupolev-160 nuclear bombers, analogous to the US B-1 bomber and capable of carrying 12 bombs with a range of 12,000 km, for Russia. With Ukraine's door to Nato shut, Mr Shmarov has advocated closer military ties with Russia in the industrial sector.

After focusing on improving Ukraine's relations with the west and continuing to resist integrationist efforts among the former Soviet republics, Mr Kuchma's government in the last two months has tried to improve a bilateral relationship stretched by the secessionist movement on the Crimean *peninsula and mounting energy debts.*

On Friday, Ukraine agreed on a rescheduling framework for the $1.4bn (£888m) owed Gasprom, Russia's semi-national gas giant. Under the deal, Gasprom agreed to restructure $500m of debt, clear $600m with barter supplies, and cover the remainder with stakes in Ukrainian enterprises.

The latter debt-for-equity type swap raises nationalists' fears about Russia obtaining shares in strategic enterprises, such as oil refineries in Crimea, after Ukraine has apparently agreed to Russian demands to base troops on the peninsula under the Black Sea Fleet agreement earlier this month.

However Ukraine remains opposed to creating a single economic or defence union in the Commonwealth of Independent States. Russia and Ukraine also rejected calls by Black Sea Fleet officers, repeated on Saturday, to keep the 325-vessel fleet united.

President Boris Yeltsin of Russia is expected in Kiev next month to sign the agreements, although the summit has been delayed before. The two sides have yet to settle the $2.1bn state-to-state debt, mostly for oil imports.

Ukraine needs these debts cleared to help close an expected $5bn balance of payments shortfall in 1995. Russia and Turkmenistan along with the G7 countries at the Winnipeg summit last autumn agreed to help close this shortfall by rescheduling Ukraine's energy debts. Turkmenistan last month agreed to reschedule a $700m gas debt.

PRIORITY PRIORITAIRE

هكذا من الاصل

EUROPEAN NEWS DIGEST

# Political merger threatens Çiller

Two of Turkey's three social democratic parties voted to merge at the weekend, renewing uncertainty over the future of Prime Minister Tansu Çiller's coalition government. Her junior coalition partner, the People's Socialist party (SHP) decided to unite with the opposition Republican People's party (CHP) at a special party conference on Saturday.

The CHP, founded in 1931 by Kemal Atatürk, will absorb the larger SHP under the leadership of Mr Hikmet Çetin, a respected former SHP foreign minister who once served under Mrs Çiller. Mr Çetin would not be drawn on whether the CHP will remain in the coalition. Observers believe he will continue to support the government, but will renegotiate the terms of the SHP's 1991 alliance with Mrs Çiller's conservative True Path party (DYP) and force a cabinet reshuffle.

The union of the left increases political uncertainty at a time when President Süleyman Demirel and senior DYP and opposition figures are demanding general elections to create a new government with sufficient authority to deal with Turkey's mounting economic problems.

■ Turkish security forces claim to have killed 51 Kurdistan Workers party (PKK) guerrillas in a weekend battle in south-east Turkey, in what appears to be the fiercest fighting in the region for several years. *John Barham, Istanbul*

## Warning on French TV bias

The French broadcasting regulator has warned of potential sanctions against the country's national television channels if they do not more evenly balance the airtime given to the leading presidential contenders in the run-up to the elections in April and May. The Conseil supérieur de l'audiovisuel said this week it had observed a considerable imbalance in the time given to candidates, notably favouring Mr Edouard Balladur, the prime minister and front-runner in the polls, at the expense of Mr Jacques Chirac, his RPR rival in the race for the Elysée palace.

Other less known candidates from outside the main political parties had been given very limited time during television broadcasts, it added. Mr Balladur had got 6 hours 40 minutes of coverage on the three channels during January, against 4 hours 17 minutes for Mr Chirac. It said the channels were obliged to re-establish an "equilibrium" in coverage of all the presidential candidates regardless of party or popularity. The regulator potentially has the power to publicly reprimand or fine stations or ultimately withdraw permission to broadcast from the stations. *Andrew Jack, Paris*

## Russia, Poland in pipeline deal

Russia has confirmed its commitment to construction of a $2.5bn natural gas pipeline across Poland to Germany in an agreement signed in Warsaw at the weekend by Mr Victor Chernomyrdin and Mr Waldemar Pawlak, prime ministers of the two countries. The signing came during a two-day visit to Poland by the Russian premier and follows agreement signed last month on a write-off of the two countries' mutual debts.

The deal foresees the construction of a 650km pipeline carrying an annual 67bn cubic metres of Russian natural gas exports to the west from the Jamal peninsula by the year 2010. Poland will then be able to purchase 14bn cu m of the gas a year, thanks to its investment in the pipeline, which is to be owned by a joint Polish-Russian joint venture. Work on the first 102km section of the pipeline, which will link Poland's western frontier with its gas distribution network, is to start this spring. Almost two-thirds of Poland's annual natural gas consumption of 10bn cu m today comes from Russia. *Christopher Bobinski, Warsaw*

## Western interest in Azeri oil

More western oil companies are trying to enter the 10-member consortium led by British Petroleum and Amoco of the US to develop three giant oil fields in Azerbaijan. Exxon, Shell, Mobil, Elf Aquitaine and Agip have individually approached the Azeri government about the possibility of taking a stake in the $8bn project to develop the fields in the Caspian Sea, according to Mr Makmud Mamed-Kuliev, the Azeri ambassador in London.

Socar, the Azeri state oil company, has a 20 per cent stake in the project. But it is short of cash to pay its share of the development costs of the consortium. It has reached an agreement in principle with Iran to sell the National Iranian Oil Company a 5 per cent stake. But the full consortium will have to approve the purchase.

The US government has voiced opposition to Iranian participation on the grounds that it might give the Tehran government access to sensitive high technology equipment. There are four US companies in the consortium. The consortium is expected to decide on the Iranian issue and a request by Turkey to raise its stake in the project within the next two months, said Mr Mamed-Kuliev. He said the Azeri government had not decided how much of the Socar share might be sold, but the entire holding could be disposed of. The Azeri government will receive 80 per cent of the revenues from the project irrespective of the level of Socar's stake. *Robert Corzine, London*

## Macedonia ethnic row worsens

The rector of a new university for Macedonia's ethnic Albanian minority was arrested at the weekend , heightening tension between Slavs and Albanians in the former Yugoslav republic. An Albanian demonstrator was killed on Friday and several Macedonian police officers were injured in clashes outside the university offices in Tetovo. The rector, Mr Fadil Sulejmani, a former linguistics professor at Pristina University, is accused of asking ethnic Albanians to use weapons to prevent the university from being shut down by Macedonian authorities.

The university opened last week with backing from Albanian politicians who claim the Macedonian government is delaying much needed social and educational reforms for the minority. The government says the university, funded privately by the Albanian minority, is illegal and will not be allowed to hold classes. Albanians make up 22.9 per cent of Macedonia's population but only three 3 per cent of students at the country's two universities. *Kerin Hope, Athens*

EU Commission and France determined to break deadlock over time limits

# Accord on animal transport sought

By Caroline Southey in Brussels

The EU Commission and France, which holds the rotating European Union presidency, are determined to break the deadlock over time limits for the transport of live animals at a meeting of EU agricultural ministers today.

Britain and Germany, in response to pressure from animal welfare activists, have pressed for the introduction of limits on journey times for live animals.

But there has been deadlock for 18 months because ministers have been split on the issue. Southern European states, including Spain, Portugal, Greece and Italy which are major importers of live animals, have vehemently opposed the introduction of any time limit and have exercised a "blocking minority" in the council.

Nevertheless Commission officials are optimistic about a breakthrough at today's meeting because France, which had previously opposed a time limit, is in the president's chair and is committed to brokering a compromise.

A Commission official said Mr Franz Fischler, the EU agriculture commissioner, believed "all the elements necessary for a decision are in place". The official added: "He wants a decision now."

The Commission will be seeking agreement on its proposals, first tabled in 1993, which include time limits for resting, feeding and watering animals, limits on stocking density in vehicles, and a route plan for hauliers.

Mr Fischler said yesterday that the proposals could be strengthened by including the training and licensing of hauliers, sanctions against hauliers not respecting animal welfare rules and linking export refunds on live animals to animal welfare.

The Commission has argued that, on the basis of veterinary recommendations, it does not consider an overall journey limit necessary.

But Mr Fischler has made it clear that he would not oppose an overall limit if it would help the council reach a decision.

There appear to be two possible scenarios which could break the deadlock. The council might be persuaded to accept the Commission proposals without a time limit with the undertaking that they would be reviewed some time in the future. This might be sufficient to coax both sides on board.

Alternatively, there might be a proposal for a long time limit which could be sufficient to allow those countries who want a limit to claim victory without being prohibitive for the southern states.

Austria already operates a 6-hour limit on journey times, introduced before it joined the EU in January.

British and French demonstrators in Cherbourg protest at the weekend at the alleged abuse of animals during transport EPA

# Grenoble mayor in plea from jail

By Andrew Jack in Paris

Mr Alain Carignon, the mayor of Grenoble held in prison on corruption charges without trial since October last year, has dictated a letter protesting his innocence and comparing his situation with two prominent politicians who committed suicide under similar circumstances.

He criticises his "four months of brutal examination ... which smelt of calumny" and says he was not personally enriched and has no blood on his hands.

Mr Carignon refers to Mr Robert Boulin, a former Gaullist minister, and Mr Pierre Bérégovoy, former socialist prime minister, both of whom committed suicide while under investigation for corruption.

His letter follows a court decision that he must remain in jail facing corruption charges, in spite of a recommendation by the public prosecutor that he could be freed.

Mr Pierre Gascon, deputy mayor, said last week Mr Carignon was still interested in running for re-election in June even from prison.



THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN 0174-7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
F

# Stronger US presence at China talks

By Tony Walker in Beijing

The US will this week upgrade its representation in talks with China over copyright issues, sending a signal that some progress is being made.

Ms Charlene Barshefsky, US deputy trade representative, is to arrive in Beijing tomorrow to take charge of the negotiations over curbing piracy and counterfeiting of intellectual property in China.

Mr Lee Sands, deputy assistant trade representative, told reporters that Ms Barshefsky would engage in "consultations with senior Chinese leaders on intellectual property rights and market access issues."

"Over the past six days of negotiations with China, on the enforcement of intellectual property rights, some progress has been made on key issues.

"Other important issues remain outstanding," Mr Sands added.

The US official said, in a weekend statement, that negotiators had been focusing on the "initiation of a special enforcement period, establishment of enforcement task forces, and increased protection for audio-visual products and computer software."

China also reported progress in the talks. It described negotiations as "constructive", adding, "progress has been made."

Beijing noted that it had invited Ms Barshefsky to "jointly preside over the talks."

The US has threatened to impose punitive sanctions on $1.08bn (£683m) of Chinese imports if no agreement is reached by Sunday.

China has said it would retaliate in case of such action by the US.

Washington is pushing for "concrete" action against widespread piracy of US information and entertainment products, including compact and laser discs, video games, films and computer software.

US industry claims that Chinese counterfeiting is costing it $1bn annually in lost revenue.

The US is also arguing for improved market access to China for US products. China has been insisting that this should be dealt with separately.

# Washington tackles energy business with Beijing

Mrs Hazel O'Leary, US energy secretary, arrives in Beijing today heading a specialist mission whose main purpose will be to advance US power and environmental sector interests in what could become a huge Chinese market, writes Tony Walker in Beijing.

The delegation, which includes representatives of some of the biggest US power companies, engineering firms, and investment banks, is expected to sign a series of agreements with the Chinese. But, in the light of the continuing row over copyright issues, US officials have been retreating from earlier predictions of $4bn to $8bn (£2.5bn to $5bn) in deals

Mrs O'Leary's arrival coincides with a threatened trade war between China and the US, but she has been at pains to separate her mission from the copyright issue.

The composition of the energy mission underlines the fact that the power sector will dominate the agenda this week – in private sessions with Chinese officials and at a seminar on Wednesday sponsored by China's state planning commission and the US energy department. In the delegation are representatives of General Electric, the Wing Group, Entergy Power Corporation and CEA (Community Energy Alternatives Incorporated), all of which are in power project negotiations. Discussions will also focus on coal-washing technology, efficient energy usage, oil and gas, petrochemicals, coal slurry techniques and gasification.

US and other international power companies have been pressing China for greater flexibility over returns on equity investments, but a lingering dispute among Chinese leaders over the internal rate of return (IRR) on investment and other issues has stymied progress.

Of some 50 projects pending, negotiations on about a dozen large investments are well advanced, but could not proceed until China had clarified its policy on BOT-type (build-operate-transfer) schemes, according to a Western official who specialises in the energy sector.

"Power plant approvals are moving very slowly," he said. "The question is: does the Chinese government begin to give preliminary approval to large projects and thus send a reassuring signal that, while it might be in cautionary mode, it is still proceeding."

Power companies had expected China last year to specify priority projects as part of its deliberations on planning targets for the coming year. But silence from the authorities has indicated continuing differences among them over how they should structure deals with foreign partners.

Power sector representatives had hoped that China could be persuaded to agree to a formula for investment based on equity returns of 15 to 22 per cent, depending on the efficiency of new plants. Higher returns would accrue to efficient operators.

But China has not given any clear indication that it might be willing to countenance a more flexible approach.

A sticking point is believed to be the attitude of Premier Li Peng, who was involved with the power sector as a minister. He told foreign visitors recently that 14 per cent return on investment should be sufficient.

# Chinese market offers big expansion for Big Mac

**Tony Walker** looks at why the American fast food giant's $50m investment in the country is paying off

Mr Marvin Whaley, president of McDonald's China, pauses when asked about the size of the Chinese market.

"Put it this way," he says. "In the US, there is one McDonald's for every 29,000 people. In Beijing, a city of 10m people, there are just seven stores. In a city of similar size in the US there would be 400."

Since 1990 when McDonald's opened its first restaurant in China in Shenzen, the special economic zone adjacent to Hong Kong, the US company has invested $50m and grown to 27 stores. It will double that number this year, and double it again in 1996.

By the year 2000, it expects to have 300 outlets in China, and 600 by 2003.

McDonald's has opened in Beijing, Tianjin, Shenzen, Fuzhou, Xiamen, Shenzen, Dongguan, Guangzhou and Fushan.

It will add the inland Yangtze river towns of Wuhan and Nanjing later in the year with plans for one more city to make it twelve.

"We're very satisfied where we are from a profit and cash-flow standpoint," said Mr Whaley.

"But everything we make goes right back into expansion. We're still injecting capital and raising money."

McDonald's has been encouraged by the huge success of its main Beijing outlet which sells more hamburgers than any other store among the company's 14,500 restaurants in 72 countries.

More than 36m hamburgers have been sold since the store opened in 1992.

The company's approach to China and Russia make an interesting comparison. Both markets are vast, both present special difficulties, and in many respects both could hardly be more different. This is reflected in the contrasting strategies.

In Russia, the company sought to centralise its operations "under one roof" in the Moscow area, processing virtually all ingredients from meat to potatoes.

Centralisation was required to cope with the chaotic business environment and to guarantee consistent supply.

In China, the company has localised its activities, establishing outlets in tandem with regular suppliers, most of whom are American companies associated with McDonald's in the US.

In Beijing, Simplot Potato of Idaho was encouraged to establish a French fry plant processing potatoes grown under its supervision in China.

Similarly the production of buns and the processing of meat, fish and chicken has been farmed out to American companies familiar with the McDonald's formula, although in one case a local Chinese bakery has been enlisted.

Most of the teething problems in China have arisen because of a creaking transportation system. In most parts of the world, McDonald's is able to centralise its suppliers and transport raw materials over large distances. It is only in the past year or so that it has become possible to ship refrigerated French fries from Guangzhou in the south to Beijing in the north.

McDonald's has also been able to contain the size of its expatriate establishment. It has just 12 expatriate managers on the ground in China out of a total of 5,000 employees, and 20 in its Hong Kong office.

One of the secrets of its success undoubtedly lies in the fact that it has restrained price increases. A McDonald's "Big Mac" cost Yn8.5, about $1 at the present exchange rate, when the company opened its Beijing outlet in 1992. In three years the price of a Big Mac has risen by less than 10 per cent while inflation last year alone reached nearly 30 per cent in China's cities.



# Marcos junior eyes Senate

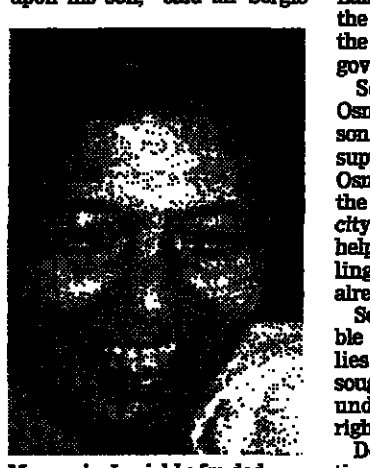
## Bong Bong wants a step up in the Philippines, writes **Edward Luce**

When Mrs Corazon Aquino wrested power from President Ferdinand Marcos in a bloodless revolution nine years ago, most Filipinos believed they had seen the last of the Marcos clan.

As the dictator's family fled the Malacanang palace for exile in Hawaii, few could have foreseen that the ousted president's son, Ferdinand junior, would be the leading opposition candidate in 1995 for the 24-member Senate – dissolved last week for elections in May.

In a country which came out by the million to welcome Pope John Paul II on a recent trip to Manila, however, the spirit of Catholic forgiveness should not be underestimated.

"I do not think we should visit the sins of the father upon his son," said Mr Sergio Osmena III, a political prisoner in the Marcos era, who is running for the Senate on the pro-government ticket on May 8.



Marcos jr: Lavishly funded

Mr Juan Flavier, who recently stepped down as the controversial pro-family planning Secretary of State for Health, is also running against the younger Marcos for the Senate which is elected on a nationwide basis. "The late Ferdinand Marcos had many loyalists who might shift their support to his charming and charismatic son on polling day," Mr Flavier predicted.

Halfway through his six year term, President Fidel Ramos is staking his government's credibility on its drive to reach newly-industrialised status by 2000. Presidential aides say election of Bong Bong Marcos, as Ferdinand junior is universally known, would make the international community think twice. Bong Bong is not the only Marcos, however, to have been forgiven. Ferdinand's mother, Imelda Marcos, widely seen to have been the main beneficiary of the Marcos-regime's "kleptocracy", is herself running on the opposition slate for the district-elected House of Representatives in Leyte, her maiden family stronghold.

Many of the dictator's former cronies though, including Mr Francisco Tatad, Marcos's right-hand man during the regime's worst excesses, and Mr Juan Ponce Enrile, Marcos's defence secretary and orchestrator of the martial law declaration in 1972, are standing for the governing coalition at the personal invitation of President Fidel Ramos.

Cobbled together to maximise the government's chances of getting a Congress which would back the continuation of its three-year-old economic deregulation programme, President Ramos's Lakas-Laban (Christian Democrat-Liberal Democrat) coalition is an eclectic roll call of the rich and prominent.

Among the government's candidates for the 12 Senate seats, 200 House of Representative seats and for the local governorships being contested are three offspring of former presidents, several former backers of the Marcos regime and a seemingly endless list of scions from leading political families.

Senator Leticia Shahani, for example, the sister of President Ramos and president of the Lakas party, will be joined on the podium by her son Ranjit, the government's candidate for governor of Pangasinan.

Senatorial hopeful Sergio Osmena III, the son and grandson of two former presidents, is supporting his brother Emilio Osmena for governor of Cebu, the Philippines' second largest city, and will no doubt expect a helping hand from another sibling, John Osmena, who is already a Senator.

Set against such a formidable Who's Who of ruling families, Bong Bong Marcos has sought to portray himself as an underdog battling for the rights of the common man.

Deftly side-stepping questions about the origin of the funding for a lavish senatorial campaign and on the whereabouts of the estimated $5bn (£3.17bn) which vanished during the Marcos era, Ferdinand junior accuses the Ramos government of handing the country's purse-strings to multilateral creditors.

Ferdinand junior's running mates on the National People's Coalition platform are expected to corner the nationalist vote by attacking the government's IMF-backed fiscal reforms and criticising the government's support for the "anti-Philippine" Uruguay Round World Trade Agreement.

"Bong Bong has a very good chance of winning," said one diplomat. "After all his mother collected 2m populist votes when she stood for president in 1992."

Mr Flavier, one of the few candidates on either ticket without a glamorous past, is among those arguing that the forthcoming elections should go beyond the issue of Bong Bong's family history. The former health secretary and a vocal section of the growing middle class believe the forthcoming poll will be a key test of the country's political maturity.

"Politics in the Philippines has long been dominated by personalities rather than issues," said Mr Flavier. "Now, with the economy taking off and the reforms on the right track, we have the chance of taking the Catholic church and the old system out of politics and getting on with the business of becoming a modern democracy."

ASIA NEWS DIGEST

# Afghan peace moves falter

Last-minute negotiations on a United Nations peace plan for Afghanistan yesterday became bogged down over transferring power from Mr Burhanuddin Rabbani, the Afghan president, to an interim government consisting of a 25-man council.

Under a plan proposed by Mr Mahmood Mestiri, the UN special envoy to Afghanistan, the council would move to disarm militant groups across Afghanistan and end continued factional fighting. But new demands from Mr Rabbani and the militant Taliban group, which has emerged as one of Afghanistan's most powerful factions, have delayed the process.

The Taliban are seeking assurances that the new regime would form a strict Islamic government, consisting of "good Moslems". The Taliban also want to exclude anyone with links to the previous communist government, removed in 1992. *Farhan Bokhari, Islamabad*

## Indonesian debt shrinks

Indonesia's foreign debt shrank to $87.6bn in December last year from $93bn in September, according to the finance minister, Mr Mar'ie Muhammad. The report comes a month after Indonesia's currency, the rupiah, slumped on fears that Indonesia's level of foreign debt would trigger a financial crisis similar to Mexico's following devaluation of the peso.

The finance minister also said that it would be difficult for Indonesia to meet its target of 6 per cent inflation as set out in the 1995-96 budget. Apart from concerns over the country's foreign debt, inflation is a significant difficulty for the Indonesian economy.

Mr Muhammad said the December foreign debt level included $58.6bn of government debt, private sector debts of $24bn and state-owned company debts of $5bn. Although Indonesia has never defaulted or rescheduled foreign debt repayments, there has been concern that the government would not be able to control growth of private-sector foreign borrowing. Indonesia is intent on keeping a lid on inflation because it needs to keep exports competitive to continue to serve its foreign debt. *Manuela Saragosa, Jakarta*

## Engine deal eludes Toyota

Mr Tatsuro Toyoda, president of Toyota Motor Corporation, yesterday returned to Japan from China without clinching a deal to make car engines with China's biggest car maker, Shanghai Automobile Industry General Corporation. "We were welcomed at Shanghai Automobile . . . but there was no decision on the engine plant joint venture or any indication when a decision might be made," Mr Toyoda said. With the engine deal eluding him, Mr Toyoda used the five-day trip to strengthen ties between Japan's biggest car maker and local groups. Toyota said lack of success on the engine deal should please US car makers Ford and General Motors, both bidding for the Shanghai Automobile engine deal. *Reuter, Tokyo*

## Chinese steelmakers in the red

A third of China's steelmakers finished in the red last year, buffeted by cheap imports and a government credit squeeze aimed at slowing an overheating economy. China Daily's Business Weekly painted a gloomy picture for the sector which had enjoyed a boom in 1993, but had since fallen on hard times.

"Nearly 32 per cent of steel enterprises in the country lost money last year, and stockpiles mounted to record highs," the paper said. Some enterprises were forced to shut down production facilities. China produced 91.5m tonnes of steel last year, up 3 per cent on 1993. Steel imports reached 22.8m last year, down from 30.2m in 1993. *Tony Walker, Beijing*

## China boosts Asean trade

China's trade with Asean countries surged by 23.5 per cent last year to $13.2bn, with China recording a small deficit, according to customs figures. China's exports rose 36.2 per cent to $6.38bn and imports 13.2 per cent to $6.83bn. Asean ranked sixth among China's trading partners after Japan, Hong Kong, the US, the European Union and Taiwan.

Malaysia is China's biggest Asean market, followed by Thailand. Asean, the Association of South-East Asian Nations, groups Singapore, Malaysia, Thailand, Indonesia, the Philippines and Brunei. *Tony Walker, Beijing*

## Thailand puts off Burma visit

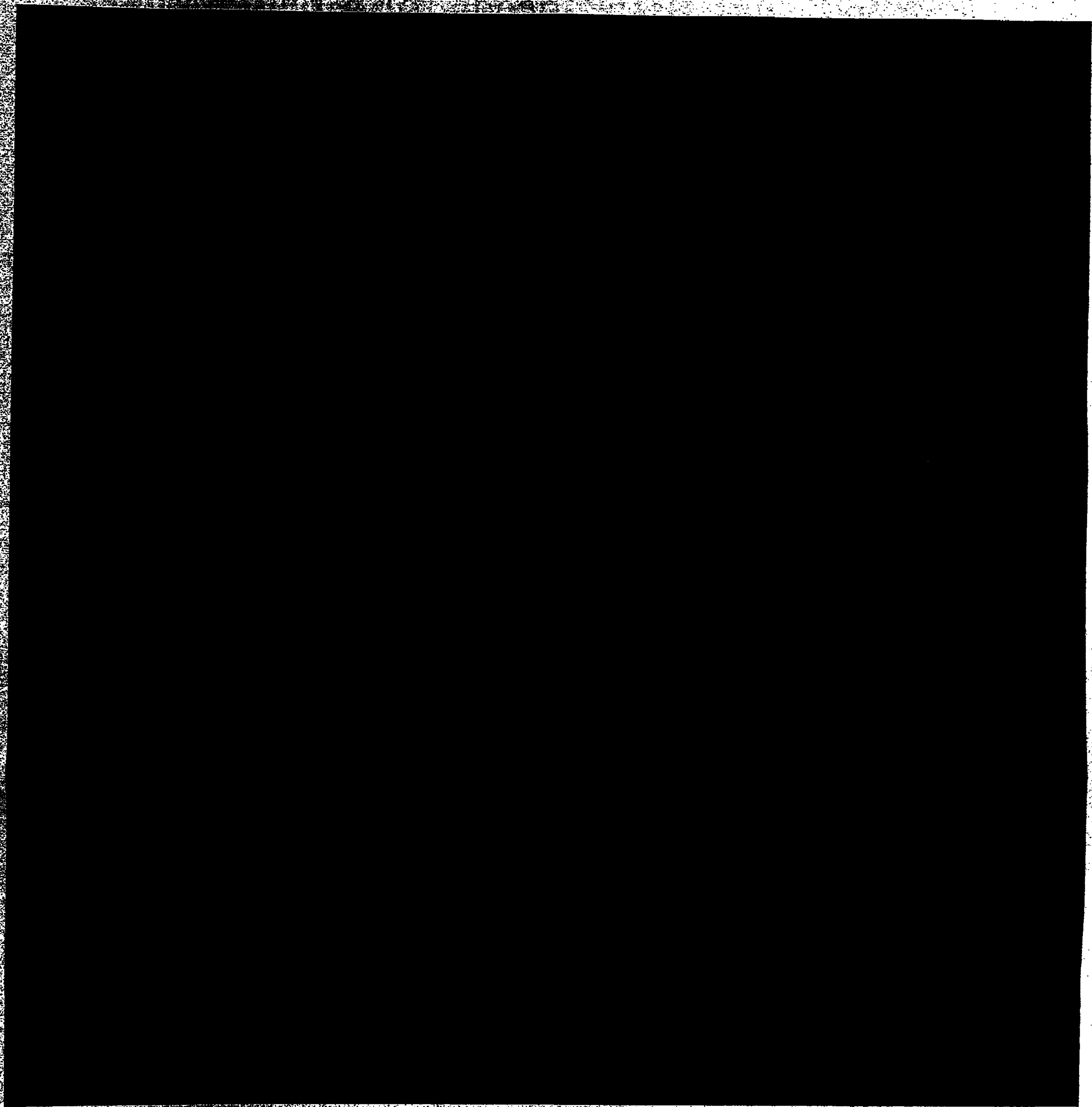
Mr Supachai Panitchpakdi, a Thai deputy prime minister, has indefinitely postponed a visit to Burma, apparently to protest against the military regime's campaign against Karen rebels which has spilled over into Thailand. Officially the trip has been postponed until the new foreign minister, Mr Krasai Chanawong, is fully installed. In a determined effort to crush the the Karen National Union opposition group, Burmese troops recently fired artillery rounds into Thailand, attempted to move troops through Thai territory and allowed kidnapping raids into refugee camps across the border. The Thai government has formally protested over border incidents. However, the biggest ever trade mission to Burma will go ahead as planned tomorrow. The Board of Trade's executive director, Mr Prayoon Talerngsri, said the mission would try to make up for some business deals lost to Malaysia, Singapore and Japan in recent years. *William Barnes, Bangkok*

هكذا من الاصل

with Beijing

for Big Mac

fghan peace
oves falte



# *vision*

We have a vision that business people all over the world that better communication will build their business relationships and that they will prosper as a result.

Communication is our business, and we believe it can make a difference to yours.

That's why we have dedicated ourselves to building *the* outstanding global communications network and a unique portfolio of products and services to match our customers' needs.

We have set up Concert with our global partner MCI to make fully integrated global communications a reality.

In other words ours is a real network not a patchwork of domestic operations; it means our global customers can benefit from unrivalled flexibility, reliability and quality of service. We are independent and free from vested interest, leaving us free to recommend the best systems for your needs. And we are open for business now.

We've made it our business to provide the best communications solutions to our customers so that we both continue to prosper.

If you believe in the power of good communication, let's talk. Call us on +44 117 921 7721.

BT

*Global communications*

# NAACP drops chief and instals reformer

By Nancy Dunne in Washington

The National Association for the Advancement of Colored People, plagued by scandal but still the largest US civil rights organisation, has thrown out its chairman and installed in his place the widow of a civil rights leader murdered three decades ago. She has vowed to restore credibility the organisation's image and finances.

Dr William Gibson, who had ruled the board for 10 years, was ousted amid charges that he had misused funds and squandered with a resulting \$4m (£2.5m) deficit.

Mrs Myrlie Evers-Williams, the wife of an NAACP organiser, Medgar Evers, when he was murdered in Mississippi in 1963, won the chairmanship by one vote and has vowed "to clean house".

The 86-year-old NAACP has been in turmoil for the past year. It fired its executive director, Mr Ben Chavis, for using organisation funds to settle a sexual harassment suit against him.

Mrs Evers-Williams led the fight to bring her husband's killer to justice. Two all-white juries in the South refused to convict Byron De La Beckwith but he was finally found guilty last year and sent to prison.

Her task at the NAACP will also require fortitude. The organisation is saddled by much debt and torn by allegations of fiscal abuse by her predecessor.

Mrs Evers-Williams must also confront a hostile Republican party majority in the US Congress, poised to overturn programmes for the poor and minorities which the NAACP helped to enact.

The association also faces charges that, although its membership is 65 per cent female, it has perpetuated a chauvinistic male culture. Last week, a female employee filed a sexual harassment case, alleging that she has been pressed to have sexual relations with another employee and claiming a pattern of discrimination in pay and assignments.

Dr Gibson, a South Carolina dentist, was ousted by the NAACP board on Saturday night after a secret ballot, amid allegations that he was trying to block an audit of his expenses, said to be about \$800,000.

The board acted only after a general meeting had passed a non-binding no-confidence vote against Dr Gibson.

Mrs Evers-Williams had been urged to run by old-guard members who were with the organisation in its glory days of sit-ins, protests and jailings in the 1960s. Those led to the passage of a large body of US civil rights law requiring equal treatment for minorities in schools, public accommodations, housing and voting.

In the 1970s, the civil rights movement in general and the NAACP lost much white support when they backed the transporting by bus of children to achieve racial integration in schools and supported programmes of affirmative action, favouring minorities in college admissions and job hiring. It is such programmes which the Republican Congress will seek to reverse.

The NAACP ran into serious trouble when, in 1993, it hired the Rev Benjamin Chavis Jr as executive director, to bring young members into an organisation of ageing members. Rev Chavis sought stronger ties with such black separatists as Mr Louis Farrakhan. He was fired after it was revealed that he had secretly promised \$332,400 in NAACP funds to settle a sexual harassment suit by a former aide.

# Better deeds for a better image

## Sarita Kendall finds Colombia trying to clean up its act on a broad front

President Ernesto Samper's administration is battling to convince European and North American governments that Colombia is committed to defend human rights and stamp out drug trafficking.

Emissaries have been particularly busy in Washington. There, on March 1, Congress will decide whether Colombia's anti-drug efforts deserve certification and continued US aid.

The Colombian authorities have publicised some impressive statistics: in the first six months of the Samper government, nearly 40 tonnes of refined cocaine and cocaine base were seized, 7,000 hectares of drug crops eradicated and more than 500,000 gallons of precursor chemicals confiscated. Furthermore, the anti-drug plan announced by Mr Samper this month includes a very ambitious proposal to wipe out all marijuana, coca and opium poppy cultivation in Colombia within two years.

Independent consultants say there are now more than 100,000 hectares of drug crops in Colombia. During the last decade, about 5,000 hectares of coca have been replaced by other crops, but coca plantations have continued to grow in size and number. "We can't compete directly with coca; we aim to guarantee an income and improve living conditions and the quality of life," said an expert working on alternative development projects.

Mr Samper says that, to establish one hectare of with coca or poppies, planters raze two and a half hectares of forest. He plans the carrot and stick approach: drug plantations will be sprayed with glyfosate, a weed-killer of low toxicity, and meanwhile \$300m (£190m) will be invested nationally in alternative crops, infrastructure and social programmes.

The government's statistics, plan and determined lobbying may well win over the US, in spite of doubts as to whether the targets are realistic, whether the administration is really prepared to capture and sentence powerful traffickers, and whether there is the remotest possibility of rooting out the drug trade from a society in which it is embedded.

Mr Fernando Cepeda, a political scientist and former cabinet minister, said he thought that Colombia's political credit had run out. "From now on, there will have to be concrete results, not just announcements, and that's both difficult and costly."

Last month, the government set up the Colombian Information Centre to change "the negative image of Colombia abroad." At the opening of the centre, the president recognised that it was not just a question of image, but of improving the reality.

Samper: Battling to convince

The centre will focus on five main issues: drugs, human rights, the economy, the environment and democracy. Colombia's human rights problem has drawn international condemnation. After a special commission had blamed government forces for atrocities, in the town of Trujillo, that left 107 dead between 1988 and 1991, Mr Samper formally accepted the state's responsibility and pledged to observe the recommendations of the commission, which said an army major had taken part in the violence and that witnesses continued to be threatened.

This unprecedented public admission is seen as an important step by human rights specialists. In a further effort, the government is looking into some of the other most glaring cases of human rights abuse, such as the assassinations of hundreds of members of the left-wing Popular Unity party.

The economic emissaries are having an easier time than the political ones. The immediate task of the former is to persuade financial institutions and investors that Colombia bears no resemblance to Mexico.

Mr Guillermo Perry, finance minister, said this year's current account deficit, of 4 per cent to 5 per cent of GDP, will be financed almost entirely by direct foreign investment. Colombia's international reserves are a healthy \$8 bn, there is little short-term foreign debt and the poorly developed stock market has not attracted significant speculative funds.

The country receives large inflows of capital for oil investment, especially for the development of BP's Cusiana fields, as well as through the repatriation of legal and illegal dollars by Colombians. This steady inflow will make it difficult for the government to maintain the real exchange rate during 1995 and avoid further revaluation of the peso.

The social pact between the government, labour and the private sector aims to reduce annual inflation from 22.6 per cent to 18 per cent by the end of 1995, while the economic growth forecast is 6 per cent.

One subject which the government continues to treat with great caution is the outlook for peace talks with the guerrillas. The hard-line communist Revolutionary Armed Forces of Colombia (FARC) have already responded "positively" to government proposals for a meeting.

However, since the beginning of the year, there have been marches, occupations of airstrips and strikes by peasants protesting at the use of glyfosate to eradicate coca. These had guerrilla backing, and the FARC are now not only taxing and protecting the drugs industry but also producing and smuggling.

The government is in danger of getting itself into difficulty by offering to step up operations against drug traffickers while trying to negotiate peace with protagonists.



World Media Review

# Internet opens windows to Microsoft foes

By Louise Kehoe in San Francisco

While the conventional media have provided copious commentary on Microsoft's anti-trust tangles with the US Justice Department, the liveliest editorial opinions and debate have been carried over the Internet.

By definition, Internet users are intensely interested in personal computers and thus the future of Microsoft, the world's largest PC software company. So Judge Stanley Sporkin's decision last week to reject Microsoft's proposed anti-trust settlement with the US Justice Department and the subsequent move by Justice to appeal against his ruling, generated thousands of comments in cyberspace.

Unfettered by journalistic conventions or legal constraints against libel and defamation, Internet writers have brought their own brand of candour to the story of this legal battle.

Microsoft chairman Bill Gates and his company are frequently vilified and described in unrepeatable terms. Net names for the company include "Microsloth", while its flagship Windows product is referred to as "Windoze". Judge Sporkin, on the other hand, has been dubbed "Sporky" and nominated as a candidate for the White House in the comp.os.os2. advocacy newsgroup.

Writers in this forum for supporters of IBM's OS/2 personal computer operating system, which competes with Microsoft's Windows, had a field day with the antitrust story. "Maybe Microsoft will be broken up like AT&T. Maybe they will have to labour under the same sort of conditions that hobble IBM today and for the past couple of decades. It's the end of the Gates era," one writer declared. ("Netiquette" prohibits publication of writers' names.)

> 'It does seem kinda queer . . . I always thought the consent decree was a smokescreen . . .'

Thursday's announcement that the Justice Department and Microsoft will appeal against Judge Sporkin's ruling produced more comment: "Well, it does seem kinda queer that DoJ, who were originally trying to rein in Microsoft are now trying to rein in Judge Sporkin. I always thought the consent decree was a smokescreen for doing nothing."

On the Internet, suspicions are high that the Justice Department tried to let Microsoft off the anti-trust hook for political reasons. "I guess golfing partners couldn't even help Bill (Gates)," comments a Gulf Coast writer in reference to a widely reported tee-off with the other Bill (Clinton).

The conspiracy theory is played out further in Canopus, a Compuserve forum moderated by Will Zachmann, a columnist for computer publications. "If what's really going on here is that this is simply a bag job on the part of the Clinton administration to let Microsoft off the hook with a sweetheart deal (a distinct possibility, in my opinion) then Sporkin has really put them between a rock and a hard place."

> Companies have little chance of redress: their traditional press relations tactics do not work

"I think a more likely scenario is that (assistant attorney general Anne) Bingaman thought she could score some quick political points, now is dumbfounded that she might have to work rather than be hailed as a hero," comes the response.

There are a few dissenters, although they are hard to find. "They (Microsoft) represent entrepreneurship, they represent the vigour that our industry needs to continue its breathtaking pace of progress and adventure," says one brave soul, who is villified by others.

Companies that become the target of criticism on the Internet – and Microsoft is not alone – have little redress. Traditional press relations tactics don't work: there are no reporters to try to influence or impress. Neither is there an editor to hear complaints. But if a company enters into the public debate the chances are high mainstream media will give the forum even greater visibility. Worse, there is little precedent for bringing charges of libel or defamation against Internet writers. Even determining which nation's laws should apply to this international network is problematic.

For the most part, Microsoft has simply allowed itself to be pilloried on the Internet without response. However, the company did issue a public denial in December when the Internet buzzed with a report that Microsoft was acquiring the Roman Catholic church.

"Through the Microsoft Network," the spoof story said, purportedly quoting Mr Gates, "we will make the sacraments available on-line for the first time and revive the popular pre-counter-reformation practice of selling indulgences," it said. "You can get communion, confess your sins, receive absolution – even reduce your time in purgatory – all without leaving your home. A new software application, Microsoft Church, will download heavenly graces automatically while you are away from your computer."

Most Internet readers enjoyed the joke, but those at Microsoft did not.

Phone calls cost businesses in Germany four times more than those in US, says survey

# State telecoms groups 'charge more'

By Alan Cane

A German business telephoning a customer 100 km away in Germany pays almost four times as much for the call as a UK or US competitor; if the German business leases a line to transmit business data it will pay almost 14 times as much as its US equivalent.

Big differences in the cost of telephone services in Europe and elsewhere are shown in a survey of tariffs drawn up by organisations representing users worldwide. The survey shows that in countries where telephone services are privately-owned, prices tend to be low; where telecoms companies are state-owned monopolies, prices are much higher.

The results are likely to provide fuel for debate in Brussels next weekend when industry ministers from the G7 nations meet to discuss the economic and social implications of the information society.

Ministers from the US and UK, where telecoms are essentially privately-owned, will argue that the full benefits of modern information systems will flow only when telecoms prices have been reduced to a level that makes services attractive to business and residential consumers.

Mr Ian Taylor, UK information technology minister, said: "You cannot have an information superhighway which is fully accessible unless telecommunications costs are falling."

The International Telephone Users Group said comparisons of tariffs charged in different countries are difficult because of different policies on quantity discounts, different definitions of local and long distance calls and so on. "The aim of this survey," it said, "is, however, to illustrate broad price indications and differences between countries that are evidently not justified by technology factors."

Based on a basket of prices for different kinds of calls, Germany has the highest telecoms prices in the world, closely followed by Japan, France and Italy. The UK has the lowest prices of the major nations, and the US the next lowest.

# Opposition party courts corporate backers

With union income in decline, Labour is finding new ways to raise money, reports **Jimmy Burns**

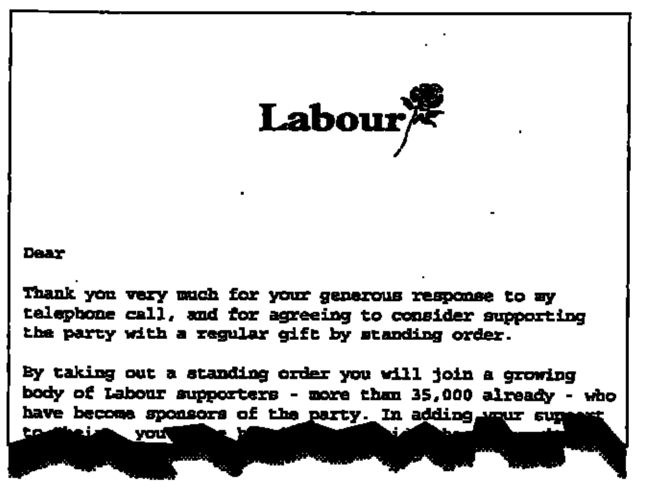
The decline in membership of trade unions has cut an important source of income for Britain's opposition Labour party. The party has therefore turned to other forms of raising money, and claims to be the first political organisation to use telemarketing as a way of raising funds.

Telemarketing is a multi-billion-dollar industry in the US but is still growing in the UK.

The party contracted out this aspect of its fundraising four years ago to Pell & Bales, an agency founded by a former party official. In recent months, the focus has moved to relatively high-income members and recent recruits, who have been put on a central database. Phone calls are preceded by a letter from the party.

The party's overdraft has been reduced from £3.5m ($5.42m) to £750,000 ($1.16m) in the past five years, and should disappear, say officials, by the end of the year.

Pell & Bales is secretive about its Labour portfolio, but the account is thought to involve between 30 and 50 part-time callers, and Labour is charged between 40 pence and £4 a call, depending on the length and detail of the call and its success.


Labour

Dear

Thank you very much for your generous response to my telephone call, and for agreeing to consider supporting the party with a regular gift by standing order.

By taking out a standing order you will join a growing body of Labour supporters - more than 35,000 already - who have become sponsors of the party. In adding your support

Mr Mike Cunnington, Labour's head of fundraising, says: "This is quality fundraising. Those who make the calls are both professional and sympathetic to what the party needs." Callers do not have to be paid-up members of the party, but have to be "demonstrably" in favour of it.

Pell & Bales has worked for about 50 clients in the arts and charity sectors but it has no other political clients.

Last year, Labour invested £200,000 in telemarketing and hopes to raise £750,000 by the end of 1996. Later this year the party will launch its in-house telemarketing service, initially to run in tandem with Pell & Bales.

Other techniques the party is using include direct mailings, a Labour credit card, and football pools coupons on which Littlewoods, the pools company, pays part of its commission to the party.

More controversial, senior party officials admit privately, are Labour's ambitions to raise funds from the corporate sector. Labour's longstanding criticism of the Conservatives for their dependence on donations from business was attacked as hypocritical by the Tories last year on the grounds that Labour had received donations from Robert Maxwell during the 1980s. Anxiety to avoid any further skeletons in the cupboard – Labour rejected an offer of £5m from an anonymous donor last summer – is now balanced by a new pragmatism among some party officials.

Mr Paul Blagbrough, Labour's finance director, says: "We can't have a situation where a barrier exists between the principal opposition party and those responsible for wealth generation in the community." Mr Blagbrough's aim is to have a war chest of at least £9m to "fight and win" the next general election.

The donation last week of £25,000 by the Pearson group – which owns the Financial Times – was the first substantial donation to the party by a British company. The gift was taken by officials as a sign that any such barrier was being broken down.

There is no evidence that other companies are lining up to bankroll Labour, but the corporate sector appears to have lost its traditional desire to keep its distance from the party in public.

UK NEWS DIGEST

## Mail staff are told to strike again

Many post offices across Britain will be hit by a further 24-hour strike on March 6 in a campaign by the Communication Workers' Union against closures. The latest stoppage is the second day of action following a 24-hour strike in many post offices before Christmas. The action will affect 20 areas, including London, Glasgow and Bristol. Postal collections and deliveries will be unaffected by the strike.

Mr Alan Johnson, the union's joint general secretary, said the industrial action was "a direct response to the cries of anger from hundreds of communities up and down the country who value their local publicly-owned post offices".
*Robert Taylor, Employment Correspondent*

## Government is urged to block tyre dumping

The Royal Automobile Club, one of the country's leading organisations for motorists, urged the government to follow US and French practice in disposing of used tyres. The club said defective tyres were being used on vehicles, and called for an immediate curb on the import of "sub-standard and potentially lethal tyres" from mainland Europe.

Millions of scrap tyres were also being illegally dumped, it said, and called for Britain to implement tough new European Union targets for tyre recycling. The club said France and the US were mixing rubber powder from scrap tyres with bitumen for use in road surfacing, and urged the British government to develop a similar initiative. *PA News*

## US companies turn to Japanese methods

US-owned electronics companies operating in the UK are more likely than those from Japan to use modern production techniques such as teamworking, total quality management and just-in-time usually identified with the Japanese approach, says a survey of 33 companies from Industrial Relations Services, a research organisation.

It says that North American-owned electronics plants are more likely than those operated by British or Japanese companies to use a range of employee participation, consultation and communication measures in their plants. "Many Japanese-owned companies do not believe production methods generally associated with providing Japan with its competitive advantage are necessarily appropriate for their factories in the UK," says the survey.
*Robert Taylor*

## Nurses' union may drop strike ban

The Royal College of Nursing, a trade union, is to review the rule in its constitution that forbids strike action in protest at the government's pay offer to nurses of 1 per cent plus a further 0.5 per cent to 2 per cent from local bargaining.

The college wants all its 300,000 members to receive an across-the-board 3 per cent wage rise and the pledge of a "fair" pay deal for next year. Any abolition of the RCN's no-strike rule does not need to secure a ballot majority of the union's members, only a two-thirds majority at a special general meeting. The last vote on ending the college's no-strike rule was overwhelmingly rejected in 1988. "For the first time for many years nurses are so angry about their pay award they are talking about being prepared to take industrial action," said Ms Christine Hancock, the college's general secretary. *Robert Taylor*

**Mass trespass:** Hundreds of demonstrators trespassed on the grounds of Windsor Castle yesterday to protest at a new law that makes trespass a criminal offence. Their action followed the Queen's refusal to allow a public riverside path to pass through her Windsor estate. The 2km section of path through the castle grounds is part of the 280-mile Thames riverside route. The Crown Estate insisted that public access to the towpath would compromise royal security. But police said that after "negotiations" with the estate the path would open to allow protesters through.

**Whisky charge:** Three men have been charged with smuggling 1,500 crates of whisky seized as they were being unloaded from a truck in Manchester, northern England. Customs & Excise officials said the men would be charged with evading duty of about £100,000 ($155,000).

# Big companies hasten to set up EU works councils

By Robert Taylor, Employment Editor

Electrolux's decision to create a company-wide consultative works council for all its European plants, including those in Britain, reflects what promises to be a growing trend over the next two years as transnational corporations in mainland Europe – including more than 100 from the UK – comply with the new European legal directive.

Under its provisions, if a company has more than 1,000 workers, employed in more than one European Union member state, with at least 150 employed in the second EU state, it must establish a works council to provide consultation and information once a year on corporate strategies such as investment, closures and redundancies, new products and financial performance.

British government ministers such as Mr Michael Portillo, the employment secretary, do not like it. But the UK's much vaunted opt-out from the social chapter of the EU's 1991 Maastricht treaty will not prevent UK-owned multinationals from negotiating works councils for all their employees.

The EU works council directive came into force on September 22. United Biscuits became the first British conglomerate to negotiate one, which it announced in November. Coats Viyella, the textile group, is now negotiating a similar body with its unions.

On Wednesday, the right-wing Institute of Directors is holding a seminar to discuss what it thinks employers should do about works councils. The Confederation of British Industry, the UK's largest employers' lobby, remains uncertain, but the Engineering Employers' Federation is adopting a pragmatic approach in advice to its members.

Increasingly, British employers recognise it makes no business sense to delay implementing the works council directive or excluding their UK workers from its provisions.

The pressure on companies to establish works councils now rather than later stems from the way the EU directive is devised. Under its terms, employers have two years to negotiate the consultation and information arrangement that best suits their circumstances.

But after September 22 1996 any remaining companies without a works council will have one imposed upon them. Since many companies dislike what they see as rigidities in the kind of works council the European Commission favours it is in their interest to press ahead with their own tailor-made works council.

The British Trades Union Congress is monitoring the spread of the European works council across UK companies. "Our employers were very slow to understand what is happening. Unions have led the way in this development," says Mr David Lea, TUC assistant general secretary.

The TUC estimates that as many as 20 European-owned multinational companies – mainly from France and Germany – have now established a works council for all their workers, including those employed in the UK.

In addition, the TUC says there are now 12 British-owned companies, including Marks and Spencer, National Westminster Bank and Blue Circle Industries, where European-wide union industry committees, trade unions or the TUC itself have formally proposed the creation of a works council. In a further 10 UK companies a trade-union based steering committee has been established for negotiations.

Seminars funded by the EU have been held in 10 other companies, including ICI, Pilkington and Rolls-Royce.

The TUC's latest list also estimates that 36 multinational companies with European operations have UK unions sitting on recently formed steering committees. Most seem likely to have works councils by late 1996. They include US-owned companies such as Coca-Cola, Ford, Heinz, General Motors and Otis.

Employers are using teenagers as "cheap labour" and saved £400m ($620m) last year by hiring school pupils rather than adults, a union said yesterday. A report by the Labour Research Department for the GMB general union, which was presented at a Trades Union Congress conference on youth, said 300,000 young people in education aged 16 or 17 had part-time jobs. This was a third of the total.

Mr Bill Brown, a GMB youth spokesman, said: "We all know young people are often exploited by employers with low rates of pay and poor working conditions.

"This study shows there are far more schoolchildren trying to keep up with their school work as well as holding down part-time jobs. We must ensure they are paid a fair rate for the job."

Most of the youngsters, 37 per cent, were in the retail trade. Catering, cleaning or office jobs were next most common. Many under-16s had newspaper delivery rounds.

Debts of lossmakers could be treated as assets

# Names face accounts change

By Ralph Atkins, Insurance Correspondent

An initiative by the Lloyd's of London insurance market to manage its finances more aggressively will affect Names in the US and Canada as well as those in the UK.

As part of a change in management of its finances, Lloyd's is considering treating some debts owed by loss-making members as assets. This could make it easier to pass solvency tests.

Mr Philip Holden, head of Lloyd's financial recovery department, said the move would bring the insurance market into line with the practice of banks and building societies (mutually-owned loan institutions) of treating "good" or recoverable debt as an asset.

He said that, by increasing the resources of Lloyd's, the change in accounting practice could make it easier for the market to satisfy regulators of its ability to meet the liabilities of all Names – the individuals whose assets traditionally support the insurance market. Mr Holden added: "This is about

LLOYD'S
LLOYD'S OF LONDON

managing assets not just this year but for years to come. The problem is not that we're doing it but that we haven't done it before."

Lloyd's does not give figures on the debts of Names. But the amount paid out of its central fund, which acts as a policy protection fund, on behalf of UK Names who are unable or unwilling to pay is estimated to stand at more than £500m ($775m). A larger amount is "earmarked" for solvency purposes from the central fund to cover the potential liabilities of Names.

Since September, Mr Holden has been attempting to reach negotiated settlements with almost 4,500 individual Names. He has not ruled out offering to "cap" any future liabilities, allowing Names to pay a final bill and leave the market.

A similar initiative is now under way in the US and Canada where Mr Holden is seeking to recover $368m owed by Names. Mr Holden has reached agreement with some Names that litigation threatened by them against Lloyd's should be suspended pending the outcome of negotiations.

This Week, Page 8

## THIS WEEK

# A land confused by its past

**DATELINE**

**Tokyo: Japan's historical muddle is a strength and a weakness, writes William Dawkins**

It is just before dawn in central Tokyo. Five hundred soldiers, footsteps muffled by snow, steal up on the prime minister's residence, a dingy brick building near parliament.

They push through the front door, machine-gun a chandelier by mistake, shoot a man they believe to be prime minister and declare their intention, in the name of the emperor, to set up a military government.

The attempted coup, 59 years ago this week, went tragi-comically wrong. In fact the plotters missed the prime minister, who had taken refuge in a laundry basket, and shot his brother-in-law instead. Former Emperor Hirohito, in one of his few decisive acts, stifled the mutiny within hours by refusing to support it.

Leaders of the "February 26 incident", as it is called in Japanese schoolbooks, later went to the firing squad. But despite the rebellion's failure, it marked an important stage in the rise of military power in pre-war Japan. It prepared the ground for the confrontation with the US over Japan's occupation of northern China, the Pacific war and ultimately the bombing of Hiroshima and Nagasaki, the 50th anniversary of which falls in August.

Revealingly, February 26 will pass almost unremarked in Japan this week. Press articles on the event are scarce. It is rarely mentioned anywhere. Which all supports the impression that the Japanese public is selectively blind to, or bored by, bits of its own recent history. This invites the twin questions of whether this is deliberate or involuntary, and whether a strength or a weakness.

The answers are worth thinking about in a year when the anniversary of Hiroshima will impinge on Japan's relations with the rest of the world – and on how other countries see Japan – in ways that some in the Tokyo foreign ministry privately fear could be downright painful.

One explanation, offered by so-called revisionists who believe Japan is deeply different from the west, holds that Japanese history is a tool of the state. Ignoring February 26 would thus be deliberate. This, they argue, is a tradition inherited in pre-Meiji times from China, where court historians were employed to filter the past in ways that bolstered regimes' legitimacy.

But that may be only part of the story. After all, the failed coup gets a decent, if bland, paragraph in a Japanese junior high school history book I have to hand. Another school of thought, closer to the truth, holds that Japan is in an involuntary muddle about modern history. That view is explained by Ian Buruma, an expert on popular Japanese culture, in his book, *The Wages of Guilt*, an exploration of Japan's and Germany's different reactions to the second world war.

Germany has squarely condemned its own wartime horrors, because the Nazis were easy to blame as an aberration of the real Germany. Japan has found it harder to exorcise the past, argues Buruma, because criticising a war waged in the emperor's name is uncomfortably close to criticising the emperor himself. Hirohito's son, Akihito, remains the semi-divine symbol of the state. So it is that there is no single Japanese view on February 26 1936, or on Japan's responsibility, or lack of it, for the events that followed.

Many Japanese people were genuinely disappointed when Washington's Smithsonian Institution recently scaled down an exhibition of the Enola Gay bomber, to exclude pictures of the civilian carnage of Hiroshima. And nobody is upset by comics, plentiful in my local bookstore, of second world war Japanese soldiers blazing away at the enemy – and winning.

On the other hand, Tomiichi Murayama, Japan's pacifist prime minister, is campaigning for parliament to deliver, for the first time, a national war apology to Asian countries. More than half of the Liberal Democratic Party, the conservatives who keep the socialist Murayama in power, oppose the idea, partly out of pride in the emperor, partly respect for the surviving wartime generation that keeps them in power. So much for Japan's famed consensus.

Japan's historical muddle is both a strength and a weakness. It may be part of its talent for turning fresh pages, without troubling too deeply about unresolved problems in earlier chapters.

That much was evident during the Meiji restoration, when Japan dumped the feudal past and crammed progress achieved in three centuries of European history into three decades at the end of the 19th century. It was visible again in post-war reconstruction.

But the war anniversary may also underline the disadvantages of an incomplete view of one's own history. Germany is just about trusted as a leading European power, partly because its partners are more or less convinced that it has purged the Nazi past.

Yet talk to any Japanese businessman or diplomat, and you will hear that Japan is still mistrusted in China and Korea, where it was most active in the war. This matters to Japan more now than a few years ago, because of a shift in its political, cultural and economic interests towards Asia. Perhaps the anniversary spotlight will help Japan clarify the past to itself.

## PEOPLE

# Hutter up to speed on Lloyd's-speak

**Ralph Atkins meets Heidi Hutter, the cool-brained diplomat behind the development of Equitas**

"Never give away your pen," Heidi Hutter was warned by her mother. The occasion was a leaving party thrown by her last employer – a US subsidiary of Swiss Re, the giant international reinsurance company – at a private club in New York's Pan Am building, where she was given a limited-edition Mont Blanc stylus.

The advice was more than apt, though her Swiss-born mother, unversed in insurers' slang, did not know it. To give away your 'pen' is to delegate authority for underwriting insurance policies – a practice that contributed to the massive losses at Lloyd's of London.

Hutter was about to begin a job at Lloyd's, where she would have responsibility for what may be the most important task facing the insurance market – transferring into a separate company billions of pounds of liabilities arising from US asbestosis and pollution claims, on insurance policies written as long ago as the 1940s.

A year and a half into the job, the project is as daunting as ever. This week Hutter, 37, has to complete a project guide, establishing an outline structure for Equitas, the new reinsurance company, for presentation to Lloyd's ruling council on March 1.

By late summer, Names (individuals whose assets have traditionally supported the insurance market) should be told how much they must pay to have liabilities moved to Equitas. The aim is that at the end of this year, 1985 and prior liabilities will be transferred or 'ring-fenced' into Equitas.

No insurer has attempted to quantify such 'long tail' claims in this way before. Somehow Equitas has to take account of the vagaries of US courts and the likelihood of new 'superfund' legislation on environmental clean ups. It has to untangle nearly 100,000 reinsurance contracts taken out by Lloyd's underwriters to protect themselves against excessive losses, some placed outside the market. Worse, many records held by Lloyd's insurance syndicates are incomplete.

In all likelihood, Lloyd's will be shown to be significantly under-reserved. So Hutter, an opera loving actuary with a soft New York accent, will have to show that economies of scale and investment income earned on reserves can make the project affordable for already financially stretched Names.

Failure could jeopardise the insurance market's future, leaving it blighted by its past. "The understatement of the year would be to say that is quite unlike any other job in the world," she says. "It is a job where I fully expect to make a difference. There are not many points in your life when you expect to make a difference."

To outsiders, entrusting such responsibilities to an individual with no previous Lloyd's experience may seem bizarre, if not reckless, given the intricacies of the market. Hutter admits: "It took me a month before I understood what anyone was saying."

But she says that a fresh perspective means greater clarity of thought. Moreover, her previous job, at Swiss Re's Atrium Corporation reinsurance broking subsidiary, also involved working with insurance companies facing financial difficulties.

Her admirers suggest she offers much more. Jay Novik, Atrium's president and Hutter's former boss, says: "She is the most capable person I have ever had contact with." Hutter was appointed by Peter Middleton, Lloyd's chief executive, within two days of meeting him. Her colleagues at Lloyd's say she has one of the finest mathematical minds in insurance, impressing them for instance with her ability to calculate odds on an uncharacteristic visit to a race meeting.

There are other ways in which Hutter does not match the stereotypical image of an actuary. The eldest of five sisters, she is the only member of her family who takes part in the New York state lottery – in spite of knowing the small odds of winning. Her dress sense is sober but her trademark scarves are "occasionally colourful," a colleague reports.

More importantly, Hutter has diplomatic skills – critical in an institution such as Lloyd's where rule by committee is the norm, and traditional ways of working are difficult to challenge. One who has worked with her closely says: "The most damning thing Heidi says about someone is that 'he's a very nice person' and then there is a pregnant pause. It often means she doesn't have enormous respect for their intellect."

The real test will come this summer, when the first figures on the cost of Equitas to Names are revealed and the project's leaders have to liaise directly with Names. Richard Keeling, former deputy chairman of Lloyd's, says: "The trick now is to build up a team around her...we have got to get a few more Heidis around here."

## NAMES IN THE NEWS

### Volkswagen's Piëch softens towards BMW

Is Ferdinand Piëch going soft? The Volkswagen boss, hard nut of the German motor industry, dedicated to lean production and even leaner management, is taking on extra help, writes Christopher Parkes.

He has nominated Robert Büchelhofer, one-time marketing director at BMW, to a similar job on the VW group board, in which the 52-year-old Austrian will take on many of the responsibilities Piëch, also Austrian, previously reserved for himself.

The appointment, to be nodded through VW's next supervisory board meeting in mid-March, will end Büchelhofer's spell of 15 months in the wilderness, where he has been operating as a headhunter with the Swiss-based Tasa group.

While VW has long been in need of help to sort out the muddled marketing and distribution of its four marques – VW, Audi, Seat and Skoda – BMW decided after Büchelhofer's departure that it could manage perfectly well without a replacement.

This not-exactly-flattering reflection on his value is unlikely to have any effect on the idiosyncratic Piëch, or prompt any opposition or questions from VW's supervisory board.

After so many boardroom sackings, the company can certainly afford to pay an extra salary. In any case, there seems to be an increasing chance that there will soon be a vacancy in the thinned-out leadership.

José Ignacio López de Arriortúa, the production boss hi-jacked from General Motors in mysterious (and unresolved) circumstances two years ago, has slipped from view and earshot.

VW watchers report he has also slipped from favour. In that case it may only be a matter of time before the brainstorming Basque packs his traps and departs for some far-flung corner of the VW empire.

### Fay sails in choppy waters

Remember Sir Michael Fay, the 45-year-old New Zealander who set out to capture the America's Cup and conquer the world of high finance?

For the first time in recent memory New Zealand is contesting the America's Cup without Fay's help and his high profile Fay, Richwhite merchant bank is retreating from the world stage, writes Terry Hall.

Fay, who set up New Zealand's best-known merchant bank with David Richwhite in 1975, has pressing problems at home. His firm, which reported net profits of NZ$53m in 1993, broke even last year, and lost NZ$7.3m in the first half of its current year. The share price has fallen from NZ$8.60 in 1987 to a low of 36 cents.

In addition, Fay, Richwhite remains embroiled in the ongoing enquiry into corporate tax dealings in the 1987 period in the Cook Islands.

Fay and Richwhite have responded to the unwelcome publicity by offering to buy back the 28 per cent of Fay, Richwhite they do not own, for NZ$71m.

Although their offer of 80 cents a share was pitched well above the current price, some of the 11,000 small shareholders remain critical of the the $NZ182.5m charged for goodwill when Sir Michael and his colleagues reversed their private investment firm into a listed public company they controlled in 1981. Fay could have a struggle on his hands in his bid to remove his company from the public eye.

### Olympic task for Doganis

It takes courage to sign on as chairman of Olympic Airways, Greece's debt-burdened state carrier, writes Kerin Hope.

Olympic has been going through chairmen at the rate of roughly one a year, but this has not deterred Professor Rigas Doganis, head of the air transport department at Cranfield University and consultant to Britain's House of Lords, stepping into one of aviation's hottest seats.

Doganis knows all about troubled airlines. He started his consulting career reorganising state carriers in French-speaking Africa, among them Air Mali and Royal Air Maroc. However, Olympic's problems are in a league of their own.

He will have to supervise a rescue plan agreed with the European Commission in return for writing off almost Dr400bn of debt, and get the unions on his side – a task which has defeated most of his predecessors.

As with most top jobs in Greece's public sector, Andreas Papandreou, the prime minister, decides who should run Olympic. Apparently, he asked around and found someone who had read one of Doganis's books and liked the look of his CV on the book's dust-jacket. Much to the surprise of Olympic's executives Doganis accepted; but has wisely set a time-limit of six months to get the restructuring done.

## FT GUIDE TO
### THE THIRD PILLAR

**What is the third pillar, and why are politicians in Europe suddenly talking about it?**
The third pillar is the new process whereby the 15 member states of the European Union are acting in concert to tackle immigration and cross-border crime.

**So what's new about crime?**
Your're missing the point. The EU's internal market provides for the freedom of movement of goods, services, people and capital. That's been good for business, but it has also created a single market in crime. Multinational gangs and car theft syndicates, often operating from inside eastern Europe, are capitalising on a barrier-free Europe. So says Chancellor Helmut Kohl of Germany.

**OK, but why use the term "pillar"?**
It's a Eurocrat term alluding to the structure of a classical Greek temple. Under the Maastricht treaty, the signatory states formed the European Union and embraced all existing policies of the former European Community. But they also incorporated two new "pillars": one concerning justice and home affairs, the other, a common foreign and security policy. The main difference is that in areas of "community" activity, the European Commission has the sole right to initiate proposals, whereas in the "pillar" system, that right is shared with member states.

**Sounds a trifle complicated.**
Not really. Sovereignty conscious countries such as Britain and France are anxious to preserve the "pillar" system because it keeps the Commission in check and allows a looser form of inter-governmental co-operation requiring unanimity in decision making. But activist Germany would like to streamline the process, increase the role of the Commission, and introduce majority voting. Chancellor Kohl's dream is to create a Euro-FBI allowing officers to cross national frontiers.

**You mentioned something about borders and immigration earlier. Wasn't there a fuss about this in Britain last week?**
Charles Wardle, a junior trade minister, resigned in protest against the planned removal of border controls inside the EU, a goal first set out in the 1986 Single European Act. He claimed it would lead to a flood of immigration into Britain. A European Commission directive requiring the lifting of frontier controls is likely this year, but it must still be approved by the Council of Ministers, where the UK has a veto. There is no immediate threat to Britain's borders or passport controls.

**What does all this have to do with the third pillar?**
A great deal. The argument in Europe is that the relaxation of internal borders is more than balanced by the strengthening of EU frontiers to prevent the entry of undesirable aliens, economic refugees, and asylum seekers. A first step is the so-called Schengen agreement which allows signatory states to tap into a computer in Strasbourg to share information and operate a joint visa policy, while allowing full freedom of movement for anyone already inside the EU.

**How many countries have signed up to Schengen?**
Only seven: France, Germany, the Benelux countries, Spain and Portugal. But others are likely to follow. EU member states are still wrangling over an external frontiers convention which would tighten the EU's borders. The chief obstacle is Spain's insistence that Gibraltar remain outside the EU's external frontiers, despite the island's historic relationship with the UK.

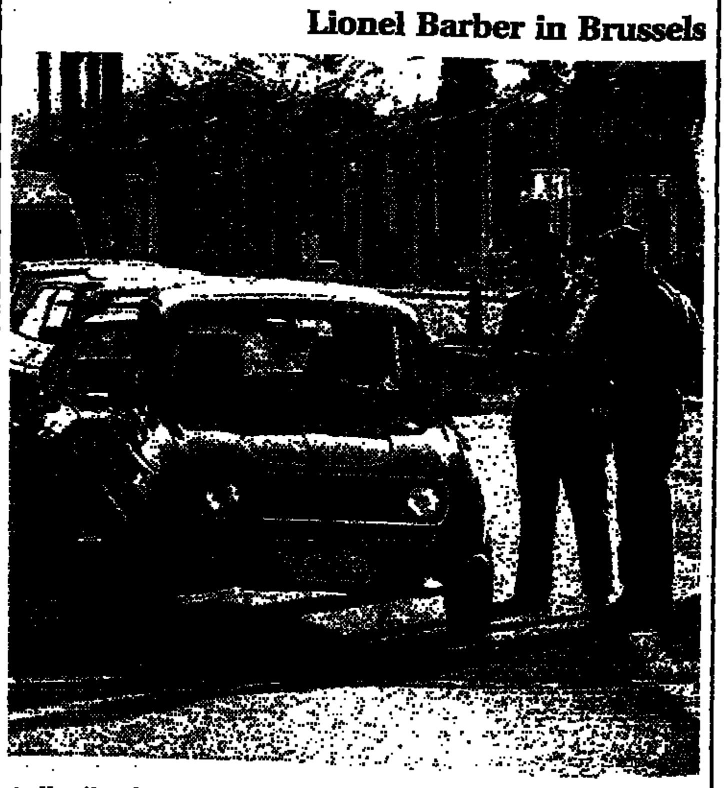
**How are things progressing with Europol?**
A little better. Charles Pasqua, France's hard-line interior minister, appears to have softened his resistance to plans for a European police agency with powers to collect and analyse criminal intelligence outside the control of national police forces. Now the question is precisely what kind of information will be shared with national police officers. There is hope of a deal at the EU summit in Cannes in June.

**Will this satisfy Chancellor Kohl?**
Almost certainly not. Germany's border with unstable eastern Europe makes Kohl nervous, but he does not want to turn Germany into a police state and wants to act under the "political cover" of the EU. He is certain to push for more powers for the third pillar at the 1996 inter-governmental conference.

**Sounds like more trouble for John Major.**
Perhaps. The British bobby is an institution, and most people do not want Euro-cops roaming the streets of Birmingham. On the other hand, there could be a consolation for Major.

**What's that?**
One of the first tasks of Europol could be to curb the single market in soccer hooligans, starting with the mob which ruined last week's football match in Dublin between Ireland and England.

**Lionel Barber in Brussels**



Trevor Humphries

A directive from the European Commission requiring the lifting of frontier controls is likely this year – but the UK would have a veto

## SPORT

■ BILLIARDS: *English national championships, Wigan, February 21-26.*
Making its debut is the new yellow ball which is replacing the traditional spot white cue ball in the professional game.
World champion Peter Gilchrist from Middlesbrough, Peterborough's Mike Russell (holder) and world No 1 Geet Sethi of India are due to compete in the £20,000 tournament. Officials say the ball change will help spectators follow matches more easily.

□ GOLF: *Los Angeles Open, February 23-26, Pacific Palisades.*

■ ATHLETICS: *Indoor meeting, February 25, Birmingham.*
Part of Europe's new Ricoh indoor tour, which is offering $150,000 in prize money. Final meet (of four): Stockholm, February 27.

□ HORSE RACING: *Greenalls Gold Cup 'Chase, February 25, Haydock. Hong Kong Derby, February 25.*
Party Politics bids to repeat his 1993 success in the Greenalls as part of an attempt to snare the £56,000 bonus offered to any horse finishing in the first three at Haydock, then winning the Grand National 'Chase at Aintree on April 8. The 11-year-old has not run since finishing a remote third to Master Oats in the Coral Welsh National last December. But trainer Nick Gaselee says: "He is in good form and will definitely run at Haydock."

■ RUGBY UNION: *Pilkington Cup quarter-finals, February 25.*

□ FOOTBALL.
Romario, Brazil's troubled striker, will play in an exhibition game against Slovakia on February 22 – unless he changes his mind again.
Barcelona sold him to Rio's Flamengo club last month for $4.5m (£2.9m). Fifa's 1994 player of the year, Romario has been out of luck recently: invisible on the field, luridly visible off it. He was accused of hitting a woman in a restaurant and of hitting a city councilman. His car was rammed. In Spain a woman threatened to name him in a paternity suit. And his wife is contemplating divorce and freezing his assets.

■ TENNIS.
International Management Group is expected to take over as marketing agent of the women's pro tennis tour this week, and needs a chief sponsor. Last week, the women's tour, concerned about its image, rejected a three-year offer of at least $10m from the maker of Tampax tampons.

Michael Thompson-Noel

## FILMS

■ Here it is at last. Oliver Stone's *Natural Born Killers* bounds into view after three months in the UK censor's holding cell. Worth the wait? Yes and no.
Anyone who picked up a newspaper in that time knows that lovers-on-the-run Woody Harrelson and Juliette Lewis criss-cross America murdering whom they fancy. But only seeing the film will show you the style, alternately crackpot and coruscating, with which Stone films the tale: a kaleidoscopic frenzy of cutting, between viewpoints and formats, that has us feeling as assaulted at times as the killers' victims.

□ All some film-makers need for drama is a quaint news story from the 1950s. *Quiz Show* has been a critics' darling in America and is now an Oscar contender for Best Film. John Turturro and Ralph Fiennes play the TV quiz-show contestants who were sucked into a real-life scandal over rigged questions.
Director Robert Redford, true to his radical record, turns it into a fable about America's loss of innocence and the evils of class. The rightful winner from Poverty Row (Turturro) is cheated by the handsome favourite from the rich family (Fiennes).
You can take or leave the message. What finally counts is the medium: the pedigree acting, sleekly witty dialogue, masterly period recreation.

■ London's Everyman cinema revives Louis Malle's sombre 1950s classic *Lift to the Scaffold*, a film about the mind rather than the antics of a "natural born killer".
And on video, Vittorio De Sica's *Miracle in Milan* shows that cinema can astound and move us without a single dead body splatting against a wall.

Nigel Andrews

## MUSIC

■ A couple of Philip Glass's string quartets have formed the basis of scores for dramatic works. His Second Quartet, penned in 1983, was used as an accompaniment to Samuel Beckett's prose poem *Company*, while the Third Quartet was adapted for Paul Schrader's 1985 film *Mishima*.
Both works are included in *Kronos Quartet performs Philip Glass* (Nonesuch), as is the more relaxed Fifth Quartet. The works are unlikely to win any converts, but contain some of Glass's most intense and introspective music.

□ Of the many composers who became obsessed with the legend of Faust, Schumann was one of the few to set the second, more difficult part of Goethe's work to music. Bryn Terfel and Barbara Bonney are in splendid form in Claudio Abbado's new live recording of *Scenes from Goethe's Faust* (Sony) with the Berlin Philharmonic.

■ Those who complain that artwork on CD sleeves fails to match the golden age of the LP cover will welcome Decca's re-release of classic recordings from the 1950s to 1970s with original sleeve designs. *The Classic Sound* includes Peter Maag's London Symphony Orchestra recording of Mendelssohn's Scottish symphony and Clifford Curzon's polished account of Schubert's D Major Piano Sonata.

□ While warning stickers often appear on rap albums with offensive lyrics, here is one from a recording of Kancheli's sixth and seventh symphonies on Sony's St Petersburg Classics: "Warning! Extreme Dynamic Changes!".

Peter Aspden

MANAGEMENT

Midland Bank has three years to see if a gamble with its branch managers pays off, says **John Gapper**

# A return to old-fashioned values

As the Midland Bank car accelerates along the A3 to central London, Keith Whitson relaxes in the back seat. It has been another evening meeting bank staff around the country, an evening when he has talked of the gamble Midland is taking, how they have three years to make it work, how they must treat customers better, and what the consequences could be if they fail.

HSBC Holdings – the holding company of Hongkong and Shanghai Bank – is not leaving anything to chance after spending £4bn to acquire Midland in 1992. It has installed its own chairman, chief executive and deputy chief executive. Whitson, the chief executive, is an HSBC man par excellence. He was sent in to turn around Marine Midland, the US bank which HSBC acquired in the 1980s, after it lost its way. This time, HSBC has not waited *for* trouble.

Whitson, and his deputy, Richard Orgill, have not taken charge of a bank in difficulty. Midland, which reports its 1994 results next week, made a pre-tax profit of £443m in the first half of last year alone. Yet they are in charge of a unique experiment. The traditional British bank manager, who deals with everything from personal customers to small businesses, and is a stalwart of his local community, is experiencing a renaissance in Midland's 1,730 branches.

While other banks split services, moving small business lending to regional centres, and removing discretion from local managers, Midland is returning to the past. It calculates that the extra cost of having experienced managers in most branches will be repaid by extra income.

Whitson's task is to ensure this strategy works. If not, it will be reversed, and the traditional British bank manager will have breathed his last, his place taken by specialists and machines. "What we are aiming to do is take some managers out of centres and return them to branches, where they can get plugged into the local network of lawyers and rotary clubs, and gain business introductions," says Whitson. The bank calculates that this will also reduce the risk of running up bad debts. If managers know local businesses, they will be able to judge lending risk more accurately.

Over dinner at a local hotel, the 210 members of the Surrey Managers Club appear happy to be taking part in the experiment. They have had a tough few years. Banks generally have sunk in the public's estimation through poor services, and lack of support for small businesses, while Midland has had its own travails. It was fatally undermined by buying Crocker, the Californian bank which suffered vast real estate losses, in the 1980s.

Now Midland's managers have another chance. The strategy of handing them greater autonomy was devised by Sir Brian Pearse, Midland's popular former chief executive, who left the bank last year. But it could not be carried out fully without HSBC's backing. It was HSBC, flush with profits from the expanding Asia Pacific, that could afford £248m to refurbish Midland branches, and the resources to give Sir Brian's hunch time to work.

"People my age, in their 50s, are confident about what we do now, because it is going back to what our jobs were before," says Roger Holmes, a senior business banking manager in Windsor. He is "quite impressed" with HSBC's influence so far, and does not quibble with the changes in senior management following the takeover.

At the same dinner table is Tom Robson, the head of the southern division, one of five divisions in Midland.

Robson says the strategy of returning senior managers to branches, which followed a period under Sir Kit McMahon when Midland cut costs by centralising operations and segmenting services, provides junior managers with the chance of promotion locally.

"We had managers with almost no responsibility at all, and they were saying there was no future. We were the first bank to take senior managers out, so we just reversed it," he says.

Yet the change of ownership in the middle of this reversal raises some questions for Midland staff who have seen several radical switches in strategy over the past decade. "Of course, some of the staff say 'You have changed the strategy so many times, how long is this one in place?'" says Robson, "We cannot say it is for ever, but we have said that we will stick to it for at least three years, and up to five, before there is a re-think."

It is against this optimistic, but uncertain, background that Whitson rises to speak when the Surrey meal ends. Most managers in the room are seeing him for the first time. Their knowledge of HSBC, and Sir William Purves, the gruff Scottish banker who chairs the group, is mostly taken from Sir William's public pronouncements. This includes his talk of being shocked when he returned to Britain at the low public esteem in which bankers were held.

Whitson treads a balance in his speech, trying to re-assure managers about HSBC's commitment to Midland, while emphasising how it has to increase revenues. Midland's costs consumed 69 per cent of revenue in the first half of last year, far more than the HSBC group target of 60 per cent or below. The ratio fell below 60 per cent in 1993, but only because of profits from dealing on financial markets which are unlikely to recur.

In order to reduce the cost-income ratio by 1 percentage point, the bank either has to make an additional £50m of revenue, or cut £35m from its costs. For the moment, its emphasis is on revenue. By sticking with its new branch strategy, it hopes to boost revenue. It wants to expand its share of lending to small businesses, and sell more products to personal customers, such as residential mortgage loans, and life insurance policies.

"I don't think for a minute we can get the ratio down from 69 to the 40s, but we have got to be an awful lot better than we are now," he says to one manager who asks a question. He is less than re-assuring about the future of Midland's 45,800 staff if they do not adapt to change. "I do not think there is an easy ticket for anyone in financial services. My advice is to knuckle down, and work hard."

There is only one slightly sharp question from the floor, when Alison Hawkins, a business banking manager at Kingston, asks about possible redundancies in the regional centres from which managers are now moving to branches. Afterwards, she talks of the uncertainties within the bank. "It always used to be staff who were not pulling their weight who were got rid of. Now even those who are pulling their weight are feeling a bit wobbly," she says.

Perhaps that is partly due to Midland's new management. Sir Brian was a comforting presence for many staff, having worked his way up through branch banking, with Martins Bank before it was acquired by Barclays. When he moved from being finance director of Barclays to Midland, he gave the impression of instinctive empathy with his staff. Such empathy comes harder for the "cadre" – as Sir William refers to it – of senior executives who head HSBC.

There is a brisker edge to HSBC's executives, who are accustomed to an unquestioning work ethic, and eager attitude towards customer service in Asia and the US. HSBC's quasi-military ethos breeds unquestioning respect for customers, and deference to senior managers.

Back in Midland's head office near the Bank of England, both Whitson and Orgill make little secret of their exasperation at receiving letters from customers complaining of staff surliness. "The typical British person is not a very subservient individual," says Whitson drily. "We have to be courteous at all times, and if a customer is rude to a staff member, he has to bite his flipping tongue, and be civil back," he says.

Orgill, who is in charge of a re-organisation of Midland's life and pensions sales force to integrate them more closely with branches, says it is partly to do with generation. "People who joined banks 10 or 15 years ago are often not very comfortable selling things. The sad fact is that, historically, we have got the wrong people. Those we are recruiting now are different, but we have still got some of the old variety around," he says.

Both men place great emphasis on politeness for two reasons. One is that Midland is trying to re-build the market share lost in its years of uncertainty. To do so, they want to differentiate service from other banks. Midland has already offered customers who transfer to it £10 for every mistake made in the process. But in practice, its mechanised operations are already efficient. The thing it cannot control as easily is staff manner.

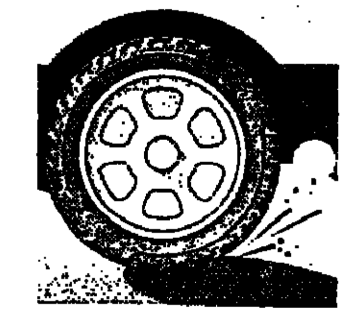
The second reason is that they want to sell more products. The bank is spending considerable sums not only on maintaining a traditional network, but on re-training staff to sell life insurance products – including pensions and endowment mortgages – in compliance with much stricter regulatory standards. Whitson talks of the "increasingly onerous" regulatory requirements on sales staff, which requires more specialist training.

Unless they manage to sell more products to personal customers, to match improvements in corporate banking, the other side of the cost/income ratio will come under fiercer scrutiny. "Our plans for the next three years show improving revenue over costs, but things can always happen that mean you cannot control your revenues," says Whitson, "The one thing you know you can definitely control as a management is your cost base."

If staff have three years, more senior managers may not have as long. Orgill, who re-structured a loss-making operation for HSBC in Australia, became deputy chief executive last April in a re-shuffle which led to the departure of Chris Wathen, managing director of branch banking. Chris Thom, head of strategic planning, left this month for Mastercard International, but he said this was unconnected with HSBC's executives.

Whitson and Orgill point out that some Midland managers have moved to senior positions in HSBC, but make it clear that Midland will continue to be shaken up. "We need workers who are receptive to change because it is already happening. Inevitably, there will some people who are not comfortable with that," says Orgill. "There will be a few casualties, maybe even one or two senior people who cannot hack it," says Whitson.

So there is an impatient air about HSBC's executives as they oversee the last experiment in traditional British branch banking. They have the capital and the determination to stick with it for three years. Beyond that, they will offer no guarantees to Midland's long-suffering employees. "If we achieve our plan, then we will be satisfied with the Midland acquisition," says Orgill. "If not, we will have to re-appraise the whole thing."



FAST TRACK

## Wolford

Not many manufacturers turn away the man from Marks & Spencer. The UK retail giant is famous for its corps of production experts who insist on scrutinising every aspect of their suppliers' operations.

But six years ago Wolford, the Austrian tights manufacturer, said no. It appreciated the exchange of ideas with M&S's technical experts, but it suspected that its ideas were leaking to other M&S suppliers.

"They did not like it, but we made them understand that our future depended on our being a few months ahead of our competitors," says Fritz Humer, Wolford's chief executive.

Two years later, Wolford would cut off M&S completely, as part of a bold strategy to jettison low-margin contract business and concentrate on building its own hosiery brand.

Wolford is now the undisputed market leader in high-quality, high-fashion tights throughout Europe. It has established several of its own boutiques and easily outsells its rivals in such prestige shops as Harrods and Harvey Nichols in London. Au Printemps and Galeries Lafayette in Paris, Magasin du Nord in Copenhagen and Herzmansky in Vienna.

Humer says the key to the company's success has been an eagerness to innovate for its customers. In the early 1970s, Wolford was the first tights maker to start using lycra, a material that provided both support and a sheer look.

"M&S used to say that we were producing Rolls-Royces for them," recalls Humer. Now Wolford is producing its Rolls's for itself. In the year to April 30, 1992, contract sales totalled Sch506.7m (£30.7m). This year, they are expected to be only Sch148m. Meanwhile, sales of branded products have jumped from Sch785.4m to an expected Sch1.09bn. While total sales have fallen slightly, net income has jumped from Sch56.9m in 1992 to an expected Sch89m this year.

In order to protect its technological lead, Wolford does not patent the machines and processes that it develops. Humer says there is no point, because once a product hits the market, the competitors can put it under the microscope and work out the make-up of the yarn, how it was spun and the finishing chemicals used in the knitted fabric.

Wolford, owned mainly by two Austrian families, is in the process of floating its shares on the Vienna and Paris stock markets. The offer has attracted considerable enthusiasm, with the international tranche of the share offer oversubscribed several times.

Analysts see an exciting future for the group, as it has barely tapped the US and east Asian markets. The down-to-earth Humer says he is more interested in capitalising on the group's excellent reputation in Europe. "The German market is 10 times the size of Austria's. If our German sales were 10 times those we have in Austria, our total turnover would double."

He is equally sceptical about diversification into other areas of women's clothing. "Those are options for the future. For the moment, we should concentrate on the things we know. We are good knitters of elastic material fitting close to the body."

**Ian Rodger**

*This article is the first in a series looking at rapidly growing private and quoted companies in Europe.*

# Shave off the beard and don a toupee

**ADRIAN FURNHAM**

Baroness Thatcher does not like beards. She may even be pogonophobic (the technical term, doctor). And, given the number of hair pieces worn by politicians, media stars and businessmen, it seems we are not too keen on baldness either.

But is an obsession with hairiness or hairlessness a common phenomenon? Various researchers have asked this question. Ordinary people are usually given photofit pictures – to keep the underlying attractiveness of the face constant – which are rendered bald, bearded, spectacle-wearing or whatever, often in combination. These photographs are then rated.

Men with beards are rated more masculine, extroverted, courageous and independent, but also less attractive, older and dirtier. Baldness is associated with greater intelligence and sometimes sexiness, but also with lower attractiveness and less life success.

Spectacles may help various competency-related traits like intelligence and honesty, but wearers are seen as more timid, fearful and dependent than non-wearers. Glasses and beards have opposite effects on rating of mental competence. Specs make one look intelligent and alert but lacking in social forcefulness, while beards make one look virile but dim.

Research therefore confirms the fearful suspicions of those sans their crowning glory and afflicted by myopia. Unless you want to be seen as donnish, get contact lenses. If you don't want to be thought of as a raping and pillaging Viking, get rid of the beard and if you don't want to be seen as a failure, get a toupee.

Is job satisfaction genetically determined? For some, the very idea of posing this question is not only politically incorrect but terrifyingly Orwellian. But for management scientists it is not only a legitimate, but an intriguing, question. Two sorts of findings led researchers to ask it. The first was the perhaps surprising fact from longitudinal research that despite changes in pay, occupational status and environment factors over time, people seemed remarkably similar in their *reported satisfaction. The happy* remained so, as did the dissatisfied, whatever seemed to happen to them at work. The second finding concerned identical twins separated at birth, and showed that genetic factors seemed to relate to educational achievements and occupational choice. Could it be that job satisfaction is, in part, inherited?

An American tested 34 twins (reared apart) who were on average just over 40-years-old.

The analysis showed that a strong genetic component (30 per cent of the variance) could account for differences (or similarities) in intrinsic motivation but not motivation for *specific rewards motivation, that is,* how essentially satisfying one finds the nature of one's work.

Environmentalists argue that all the remaining variation is due to the nature of the organisation, supervision, reward packages etc. This does not necessarily follow, although few dispute there is some effect on satisfaction levels of the conditions at work.

These findings are contentious, but if correct have important implications for management. First, it seems that the attitudes and dispositions that employees bring to jobs are rather more difficult to modify than previously acknowledged. Thus job enrichment programmes are unlikely to please the dissatisfied. Second, if an employee's satisfaction is fairly stable from job to job, future satisfaction may be predicted from current job satisfaction. Discovering a potential employee was dissatisfied in a previous job may well be a bad omen for their reaction to working for you.

It is an interesting exercise, while watching commercial television, to try to ascertain who the audience is. Without looking at those bland and unreliable viewing figures, it seems possible to deduce who the TV companies believe is watching each programme. One does this, of course, by looking at what is advertised before, during and after the programme and how many advertisements there are. From this you can infer comparatively at any rate, how many people are watching (more adverts mean more people) and something about their demographic breakdown. Household detergents for housewives, toys for children . . . that sort of thing.

Being an early riser, I frequently watch the early morning news. And naturally I also catch a little of the previous programme. Who, one wonders, is watching with me at this hour? The advertisements have kept me guessing.

There are, curiously, advertisements for fast foods. Are these aimed at shift workers wanting a quick snack when they arrive home? Airlines are often advertised – are they after the jet-lagged viewer? I have to say I have no hypotheses at all as to why banking services or sanitary towels are advertised at 5.30am.

Except, of course, that the slots are much cheaper at that time.

# BUSINESS TRAVEL

### BA to Damascus

**British Airways is to start flying to Damascus after a break of 12 years, *writes Michael Skapinker, Aerospace Correspondent.* The Damascus service will be launched on April 29, with two Boeing 767 flights a week from Heathrow, London. The airline will also double flights on its newly available Amman service to four a week, and next month starts a twice weekly service from Gatwick, London, to Baku, Azerbaijan, via Bucharest.**

### 'India is back'

Five months after an outbreak of plague chased visitors out of India, business travellers are flocking to its biggest cities in record numbers, *Reuter reports from New Delhi.*

"There are no rooms free in Delhi," says an official. The plague outbreak last September killed 57 people and sparked an international health panic. The total number of foreign visitors fell 34 per cent last October compared with October 1993, and was down another 17 per cent in November. But a record number of visitors arrived in December and in January numbers rose again. "The plague was a temporary phenomenon," says Manashi Roy, senior director of the Confederation of Indian Industry. "India is back."

Hotels in Delhi and Bombey are described as fully booked, compared with a usual occupancy rate of 85 to 90 per cent at this time of year. Leading the pack of visitors are numerous businessmen scouting newly liberalised India for trade and investment opportunities. The last two months have seen high ranking business delegations from more than 30 countries.

Asked why so many businessmen were arriving, Roy said: "Liberalisation, opening up competition and reforms." Said one western diplomat: "The number of visitors reflects the pace with which India's status in the world is changing."

### 737s grounded

**Air New Zealand has grounded the bulk of its national Boeing 737 passenger jet fleet because of what it called turbine failure. Managing director Jim McCrea said that grounding 10 737s was in step with aviation safety requirements. "With a third and fourth failure in a matter of a week this month, we consider it is now necessary to ground the aircraft until we can replace the overhauled blades." Most services will be maintained but there will be some disruption.**

### Delta-Virgin alliance

The alliance between Delta Air Lines of the US and Britain's Virgin Atlantic Airways will start on April 2 with 52 flights a week from London to the US, *writes Michael Skapinker.*

The two airlines won US government approval for their code-sharing agreement earlier this month. Delta will purchase a designated number of seats on Virgin flights. Code share flights will operate between London's Gatwick airport and Boston, Orlando and Miami; and from Heathrow to New York's JFK, Newark, San Francisco and Los Angeles.

### Greek airport

**Greece has again vowed to build a $2.3bn (£1.5bn) international airport, despite tussles with the EU and with the contractor, a consortium led by Hochtief of Germany, *Reuter reports from Athens.* The ruling Pasok party was backing Spata airport because it was significant for Greek development, parliament was told.**

**Three Pasok rebels said they opposed the plan, which involves building an international airport from scratch. "Athens does not need a new luxury airport of doubtful usefulness," said former transport minister Theodoros Pangalos.**

### Likely weather in the leading business centres

| | Mon | Tue | Wed | Thur | Fri |
|---|---|---|---|---|---|
| Tokyo | 10 | 9 | 9 | 9 | 10 |
| Hong Kong | 18 | 16 | 16 | 17 | 17 |
| London | 11 | 8 | 11 | 12 | 12 |
| Frankfurt | 12 | 15 | 8 | 9 | 11 |
| New York | 8 | 2 | 3 | 5 | 7 |
| L. Angeles | 29 | 28 | 27 | 28 | 29 |
| Milan | 16 | 14 | 15 | 13 | 13 |
| Paris | 14 | 13 | 10 | 11 | 12 |
| Zurich | 12 | 13 | 9 | 8 | 11 |

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands



**Richard Tomkins** on a new squeeze on US travel agents

## Too tight for comfort

For as long as most people can remember, travel agents have earned their living from the commission they receive on the cost of the tickets and accommodation they sell. But suddenly the system is about to be turned on its head in the US.

*In one of the most far-reaching changes in the US travel industry,* US airlines are forcing the introduction of a system under which customers will have to pay for travel agency services, just as they do when they use the services of lawyers, accountants or stockbrokers.

The revolution was triggered 10 days ago when Delta Air Lines, the third biggest US carrier, put an immediate ceiling on commissions. The airline would go on paying travel *agents a commission of 10* per cent on lower-price tickets, it said, but it would set a maximum commission of $25 for any one-way domestic ticket costing more than $250 and a maximum of $50 for any round-trip domestic ticket costing more than $500.

Next day, Delta's share price shot up 8 per cent as the stock market relished the potential cost savings, and by the end of last week, other large US carriers – United, American, Northwest, Continental, USAir and TWA – had followed suit.

Travel agents are still doing their sums, but the consensus is the commission caps will cost the industry about 15 per cent of commission revenues from domestic airline tickets: for most agents, the biggest single source of income.

But this is only part of the story. Agents say the average cost of issuing an airline ticket – counting wage costs, telephone charges and so on – is about $25, so they only start to make money on transactions when their commission rises above that level. By capping commissions at $25 for one-way tickets and $50 for round trips, the airlines *will leave the agents with all their* loss-making business, but eliminate most of their profits.

The American Society of Travel Agents says the effects will be devastating. Agents' margins are already thin. *Pre-tax profits* for small to medium-sized agencies are typically less than 1 per cent of sales. ASTA says commission caps could force nearly a third of 33,000 US travel agencies into the red.

But *there may be an alternative.* The airlines say they do not want the travel agents to go out of business. Delta says: "Travel agents perform a very valuable service, and they should be compensated for it." The airlines are simply saying they want somebody else to do the compensating: the customer.

This practice is already widespread in the corporate sector. Big travel agencies such as American Express and Carlson Wagonlit Travel, which offer comprehensive travel management services for corporate clients, are gradually moving *these customers to management fee* contracts – the agency receives a fee from the customer for its services, and any commissions it receives are rebated to the client.

This does not mean business travel will be unaffected by the commission caps. Corporate customers on management fee contracts will experience a big cut in the amount of commission rebated, so their net travel costs will rise. They are likely to compensate by renegotiating fees for travel management contracts, so putting *pressure on the agencies.*

But things look far worse for the thousands of agencies catering for smaller businesses and leisure travellers. Once these agencies start charging for their services, customers will try to avoid the fees by booking directly with the airlines.

Undoubtedly, many travel agencies will be unable to take the strain. The survivors will be the most innovative in finding replacement revenue streams: for example, *making more money from* package tours and cruises, or specialising in tailor-made holidays.

Other ideas for staying in business could involve customer loyalty schemes. Carlson Wagonlit has already announced it will not charge fees to regular customers or to people buying more than one airline ticket at a time. American Express is experimenting in some US cities by charging a $25 fee for airline tickets costing less than $200 but offering to deduct the same sum from future ticket purchases on presentation of the receipt.

Schemes such as these may help *to mitigate the damage* to the US travel agency industry, but there is little doubt it faces drastic structural change. Perhaps the bigger question is whether the airlines of other countries will adopt the idea. It may only be a question of time.

Business travellers in the US could face a net increase in travel costs

## Transatlantic flights of fancy

London to Paris for £68 return on Air Liberté. A return trip from London to New York with British Airways for £206.

European airlines are bombarding customers with late winter discounts. But experienced travellers will respond with a cynical shrug.

Is the small print not filled with special booking conditions? And why do Europeans have to pay so much more for air tickets than Americans, even after discounts?

It is true that many European offers include conditions that make them unsuitable for business travellers. Both the examples above require travellers to spend a Saturday night in Paris or New York.

Steve Hartwell, London-based regional director for business travel at American Express, says that when US and European carriers compete directly across the Atlantic, the fares they offer are broadly similar.

Are flights within the US cheaper than those in Europe? United Airlines says it offers a $62 (£40) one way economy fare from Los Angeles to Phoenix. To fly economy from Hamburg to Munich on a European airline would cost £169 ($295), United says.

European airlines warn against making these comparisons. First, *there are a large number of different* fares in the US. When the UK's Civil Aviation Authority investigated the issue in 1993, it said that five airlines flying between New York and Washington offered more than 100 different fares. These started at $139 return but went up to over $1,000.

Second, the most attractive US domestic fares often have restrictions attached to them, too, or are "capacity controlled", which means the airlines will only sell a limited number of them.

The CAA found that a US passenger looking for a fully flexible fare on a journey of 600km might pay £60 to travel one way on Southwest Airlines, a no-frills carrier. Where Southwest did not compete, the journey might cost £160.

On a UK domestic flight, the price would be only £100. It would be about the same in France, lower in Spain and Italy and higher in Germany. On intra-European routes, UK passenger fares compared favourably with those US areas where Southwest did not compete. Fares were higher in Germany, with other European countries somewhere in between.

An important difference, however, was that a third of European passengers paid the full fare, with the rest travelling on discounts of less than 50 per cent. In the US, only 12 per cent paid full fare, with the rest on an average discount of 63 per cent.

US airlines operate in a more deregulated environment than European carriers. US costs are also lower. Another important difference, however, is that US customers demand and get bigger discounts than Europeans.

**Michael Skapinker**

MEDIA FUTURES

**Alan Cane** describes an ambitious plan to root a whole nation in computer technology

# Danes speed up on superhighway

Denmark has one of Europe's smallest populations. Yet it has powerful ambitions in information technology. Next month, if its government agrees, it will launch a national plan for IT geared to creating what it describes as "InfoSociety 2000", a project designed to "tie public institutions and companies together by means of modern information technology and create new possibilities for citizens".

Frank Jensen, Denmark's youthful research minister, puts his country's dilemma starkly. "What is Denmark going to live off in the future?" he asks. "We have to exploit our position as a knowledge-based society."

The urgency with which Denmark is tackling the question contrasts sharply with the results of a number of surveys in recent months which have suggested that the larger European countries, while aware of the potential and threat of multimedia and of the information superhighway, are dragging their heels in making use of the new technology.

Denmark has some advantages over its bigger neighbours. With just over 5m inhabitants and a healthy budget, it is a sophisticated user of computers and communications. There are four times as many households with a PC in Denmark as in the Netherlands. It ranks third after the US and Sweden in the proportion of gross national product invested in IT.

But it has not, so far, been a pacesetter in telecommunications policy. It is one of the majority of European countries where competition is retarded – and telecommunications charges artificially high – because of the monopoly position of the state-owned operator, in this case TeleDanmark.

Partially privatised last year, TeleDanmark is overstaffed and inefficient. Some argue that it needs three or four years to restructure itself before facing the full force of international competition. That will come in 1998 when EU ministers have decided that competition in both infrastructure and services will be introduced across the EU.

Denmark's telecoms authorities are aware of the problem. Indeed, an aggressive telecoms policy would underpin InfoSociety 2000. The aim is to provide Denmark with the world's most low-priced and efficient telecommunications services.

An aggressive telecoms policy will underpin 'InfoSociety 2000' *Tony Andrews*

The details and sources of funds for InfoSociety have yet to be thrashed out between the country's spending ministries, but there are estimates that it will involve public expenditure of about DKr5bn (£538m) over four years. According to Jensen, the public sector will take the lead and the private sector will follow its example.

**Public institutions will replace paper-based files with processing tasks based entirely on electronic means**

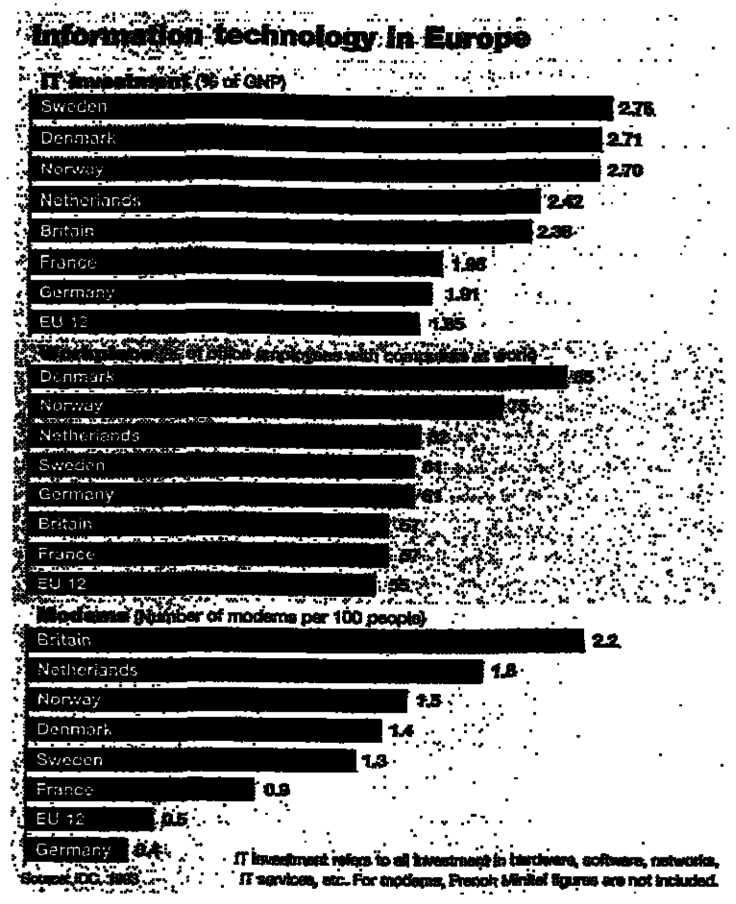
The principal recommendation of the plan is the establishment of a computer network linking public administration at both central and local levels, which should make make much of today's paper trail of official correspondence redundant.

Central to the scheme would be a "citizen's card": a credit card sized piece of plastic with a photograph of the holder and a personal identification number. This would serve as a key to the system. "Public institutions," the report recommends, "shall put an end to paper-based files and processing tasks will be based entirely on electronic means."

Specific areas mentioned in the report are:

● Primary and lower secondary schools. Denmark spends heavily on education but IT has made little impact so far on the lower schools. Much of the difficulty lies with teachers. Some are uncomfortable with computers because they belong to an earlier generation or have had little opportunity to use computers in their everyday lives. Another factor may be a shortage of good educational software.

Among the initiatives suggested by the report is computer-based supplementary training for teachers and a computer network connecting all the lower schools in the country.




● Health services. The consistent use of IT in the health area, the report says, may provide for better patient care and substantial cost reductions. "Furthermore, a frontliner effort in this area may make Danish IT companies more competitive in both national and international markets."

**Larger European countries may be dragging their heels in making use of the new technology**

The report recommends a nationwide health network for the interchange of information and a national standard for electronic patient case files. It also proposes the development of national systems for diagnosis and clinical treatment and for diagnosis at a distance.

● Research. The report recommends that all Danish scientists should be connected to the Internet while research institutions, libraries and publishers will be encouraged to develop a Danish electronic research library.

To those outside Denmark, some of the proposals seem rather dated. The UK has been encouraging computers in schools since the early 1980s, and a number of countries are working on electronic health systems. But there have been few comprehensive successes. Computers in UK schools gather dust on shelves. And in the US, patients' files are regularly mislaid because they have not been transferred to computer systems.

Denmark is small and determined. If its government agrees to the proposals for InfoSociety 2000, it could result in the largest test so far for the information society.

*InfoSociety 2000; Ministry of Research. H.C.Andersens Boulevard 40, Dk-1553 Kobenhavn V, Denmark DKr90.*

# The hard reality of virtual shops

Retailers must prepare, says **Alan Cane**

Broadband malls – shopping precincts which exist only as images on a television screen, but through which orders can be placed and payments made – will prove the most attractive form of electronic retailing for most customers.

If these ethereal arcades prove sufficiently popular, however, traditional mail order companies and high street retailers will find their profitability severely squeezed. Their best course of action will be to get involved with electronic services at an early stage.

This is the chief conclusion of a study by Goldman Sachs, the Wall Street investment bank, which has been investigating the $5bn electronic retailing industry and concludes that television shopping, "infomercials" (short advertising films shown on TV at off-peak times) and teletext services are only staging posts on the road to what it describes as "interactive transactional electronic retailing".

What this means is that the customer calls up images of a shopping mall on a TV or personal computer screen, is able to "enter" individual shops, examine goods and – through a hand-held controller – place orders and make electronic payments.

The broadband mall, Goldman Sachs says, is the only form of electronic retailing which combines the ability to update information by the second with the storage and management capacity to pull together a large number of retail outlets and goods.

The software makes it easy for customers to find products that interest them and complete their transaction. Other refinements include full motion video and "intelligent agents" – software which gets to know a customer's likes and dislikes, filtering out products it "knows" will not prove satisfactory.

The concept of the electronic retailer or "virtual shop" is not new, and a number of trials of home shopping systems, chiefly involving cable TV, have been mounted. There are estimates of over 1,000 interactive retail trials in the past 12 years.

Goldman Sachs, however, seems in no doubt that the broadband mall is the way of the future, and that traditional high street retailers and mail order companies must act to protect their position.

It warns: "There are profound, long-term implications for traditional retailers, including supermarkets, because a 10-20 percentage point switch in the retail market from the high street to the home could eliminate most retailers' profit margins."

It will not happen overnight, however. The US has the most advanced electronic retailing systems in the world, yet the total value of the market in 1993 – chiefly TV shopping – came to less than 0.25 per cent of the total retail market.

Goldman Sachs' confidence is based on a number of consumer trends:

● A growing need for convenience in purchasing goods and services.
● The increasing number of working women and single parent families.
● Growing concern about crime and the need for security.
● Congestion in city centres and parking difficulties which are only partly alleviated by out-of-town shopping centres.

The study also looks at the prospects for optical disk catalogues such as 2Market, developed by America On-line, Apple Computers and a US software house, Medior; and, in Europe, Homestead, involving Philips Media, Freemans (a catalogue retailer), Page and Moy and Barclays Bank.

It also examines the shopping potential of the Internet, the worldwide network of networks. It concludes that the Internet will become easier, cheaper and more efficient to use.

An example is Internet Shopping Network, now owned by Home Shopping Club and designed to sell computer hardware and software via the Internet. Customers can try demonstrations of software, check consumer reviews and choose from a broad range of products.

*The Electronic Retailing Marketplace. Goldman Sachs Global Research, £150.*

# So how big is cyberspace?

**Louise Kehoe** on the demographics of the fast expanding Internet

How many people are really using the Internet – 15m, 25m, perhaps even 50m? Huge numbers have been bandied around over the past year, but with little certainty. The fact is that nobody knows for sure.

What is certain, however, is that the number of "host" computers linked to the Internet has doubled in the past 12 months to almost 5m. A host computer can be a personal computer with a single user or a network server with hundreds of users.

Until recently, computer industry analysts have assumed that there were an average of 10 users per host. That would put the current Internet population at about 50m.

However, the demographics of cyberspace are changing rapidly as home computer users, and individual office computer users, hook up to the Internet.

At the same time, commercial online services with many hundreds of thousands of users are creating "gateways" that enable their subscribers to use the Internet for electronic mail and a widening range of other services.

The result? "It is unknowable," says Tony Rutkowski of the Internet Society, a group that monitors use of the global computer network. But a reasonable estimate may be about 30m users.

The latest data from Network Wizards, a California Internet service company that is the recognised source of information on the growth of the Internet, also provide some clues about where – and by how much – use of the Internet is expanding.

Network Wizard's latest Internet survey, conducted in late January, detected 4.85m hosts on the Internet. This number should be regarded as a minimum , says Mark Lotter, who has conducted the Internet survey for the past 10 years.

Increasing numbers of Internet host computers are hidden behind security "firewalls", so they cannot be detected, he explains, and personal computer hosts may be turned off. He estimates that the latest count missed about 17 per cent of hosts, bringing the total to an estimated 5.7m.

So where and who are all these Internet users, however many they may be? Judging by the distribution of host computers, almost 70 per cent of Internet users are in the US, and, of these, almost half are in California. In western Europe there are about 1m Internet host computers, making it the second largest centre of Internet activity. Britain has the biggest concentration of Internet hosts within Europe.

In January, for the first time, business computer hosts outnumbered those at educational institutions, demonstrating the rapid commercialisation of the Internet.

The World Wide Web, the multimedia "commercial district" in cyberspace, where thousands of companies have created an online presence over the past two years, is the fastest growing portion of the Internet, and WWW host computers are now the most numerous on the Internet.

Network Wizard's Internet data can be found on the Internet at *http://www.nw.com.*

# EU slow to wire up democracy

When the European Union's civil servants open the papers to read of another Brussels drama over bent bananas or prawn flavoured crisps, the problem of how to convey a more meaningful message to the public must surely cross their minds.

Knowledge of what "Brussels" is up to is certainly limited. But according to a report out this week, the Commission is missing a great opportunity for keeping the public informed.

As Europe's capital prepares to host a Group of Seven meeting on the information society, the report argues that the Commission has been slow to exploit new online technologies for disseminating public information.

It proposes the creation of an EU network linking big EU databases to public libraries and town halls across Europe to ensure the widest possible public access to information about the EU's work and role.

In the US, the new technologies of the information society are already used to provide public information. President Bill Clinton's administration has promoted a national infrastructure which has put government and public information online to the point that almost every Cabinet-level agency offers extensive access to public documents on the Internet.

The report, prepared by consultants MacLennan Ward Research, says the US still has to address the need for universal access, and to overcome the problem of a social division growing up between information haves and have-nots.

So far the government has donated grants to individual states to help them develop information infrastructures among schools, hospitals, libraries, minority groups and non-profit organisations.

But there has also been a surge of online activity among voluntary organisations. Before the recent US mid-term elections, one such organisation, which wanted to make its services available to the public through US libraries, sponsored a pilot scheme giving voters immediate access to non-partisan information about candidates, polling places and voter registration requirements.

The report concludes that the information society, by extending the reach of European public information to libraries, town halls, and voluntary groups, could help overcome one of Europe's greatest problems: the information gap and the resulting lack of democratic consent by the people.

**Emma Tucker**

*Rewiring Democracy: The role of public information in Europe's information society. MacLennan Ward Research. 40 Pendle Road, London SW16 6RU.*

SPORT / ARCHITECTURE

# Dust-up in Shepton Mallett

"Heavyweight boxing is a different kettle of fish to pantomime," said Frank Bruno, without irony.

Unfortunately, he said it in the privacy of his dressing room, not to the baying audience of 5,000 west countrymen in the unlikely surroundings of the Royal Bath and and West showground at Shepton Mallet, Somerset. The audience were feeling just a little let down, given that Bruno's latest comeback fight had ended in victory after 65 seconds of the first round.

There is no show without Punch, goes the old adage. But Bruno's right-hander to the top of Rudolfo Marin's head put out the lights. There had been a minute's mayhem, and then the biggest draw in Somerset since King Arthur was all over.

The fight was always going to possess a surreal quality. Shepton Mallett hardly has the ring of Madison Square Garden, after all. Normally in these bleak acres of the Somerset Levels, barely an ox stirs on a wet Saturday night. Yet from the high ground near Glastonbury, continuous streams of red tail-lights winked through the darkness, heading for the fight. If Ali v Foreman in Kinsasha, Zaire, earned immortality as the Rumble in the Jungle, what was Bruno's comeback going to be? Box in Smocks?

Temporary bars set up on trestle tables did barrel-a-minute business in rustic sheds that normally only see the judging of Best Sow & Weaners. Boxing is a new thing at the Royal Bath showground. Promoter Frank Warren just wanted the biggest covered space available west of Swindon.

The only previous dust-up in the *Showering pavilion was 10 years* ago when the irate rank and file of Somerset County Cricket Club called a vast extraordinary general meeting to rough up the committee over the abrupt departure of star batsman Viv Richards.

"I couldn't believe the demand for tickets," said Warren before the fight. "We could have sold every seat three times over. Hardly any got out in London. They've all gone locally." With the cheapest tickets £20 and the dearest £75, that meant over £100,000 worth of bums on seats.

Even better was the deal with ITV. The fight went out live at 9pm on Saturday – usually the preserve of the Hollywood movie. Boxing has been through a ratings slump but now the fans are coming back. "You can't say it's boxing generically, more individual fighters attracting huge audiences," explained ITV's head of sport, Trevor East. "Naseem

Saturday's first-round knock-out of Rudolfo Marin of Puerto Rico has won Bruno another shot at a world title PA

## SPORT

### KEITH WHEATLEY

Hamed, the super-bantamweight, had 6.5m viewers last month at 11.30pm. That is just incredible. *Bruno will get far more. It goes* outside the realms of sport with him. He's a national hero."

True enough. But Bruno's popularity owes much to his impeccable comic timing on *A Question of Sport*, his box-and-cox double-act with commentator Harry Carpenter, and professional devotion to the pantomime circuit.

In the mid-1980s, when he was fighting most regularly, his career came to resemble rope-a-dope. Who now remembers opponents Gerrie Coetzee or Carl "The Truth" Williams? When Bruno fought Joe Bugner in October 1987, rival promoter Frank Warren (the very same) scoffed: "One man who can't fight against another who won't."

Yet what we are seeing now appears to be a different Bruno. Fighting Lennox Lewis 17 months ago, Bruno very nearly won against a world class boxer who looked set for the heights. And at his training camp in Lanzarote, Bruno recently went through 150 rounds of sparring with opponents who were pri*vately offered £1,000 to knock the* big man down. No one won the money.

What burns in Bruno now is the thought of one more shot at becoming world champion. His victory over Marin lets him through to a fight in June against either Oliver McCall or Larry Holmes for the World Boxing Council title.

Not that we are much wiser as a result of his visit to Somerset. Saturday's fight was supposed to be the one that established Bruno's new-look credentials. Instead, it was over in a blink. The only man to look more shocked than the horizontal Puerto Rican was ITV's director, looking to fill a yawning hour of nothing.

Marin, on the canvas right in front of me, was weeping quietly as his seconds helped him to his feet and to his corner. Immediately, the whispering started. One well regarded boxing writer asserted to anyone who would listen that Bruno's punch had only scraped Marin's upper arm – a remark with a clear and ugly implication.

It wasn't an easy proposition to raise in the dressing room afterwards. "Rudolfo recently took the WBC No 3 Joe Hipp to a split points decision. You don't get a No 3 world ranking from the sweetie shop," said Bruno. His huge fingers jabbed hopelessly at a cellphone. He was trying to call wife Laura who is about to have a third child. Mobiles go funny in Somerset.

"I just get out there and try to do *the job as fast as possible. Boxing News* predicted it would go the distance. He wasn't no fat, old out-of-shape heavyweight," claimed Bruno.

Frank Warren was shaking his head. The unhappy baying of the audience was not exactly music to his ears. "Everyone's a wise guy after the event. But ITV spent a lot of time and money checking Marin out," said the promoter.

Perhaps the last word should go to Marin's manager, Felix Savala, the boxer himself having gone for a medical check. "We came here to win but you people should give credit to Frank Bruno," said Savala, who has two world champions and 23 other fighters in his stable. "Rudolfo has sparred with Tyson and fought with Riddick Bowe, who broke his jaw. He told me that tonight was the hardest shot he has ever taken. Bruno can win the title."

# Come back, Burlington, London still needs you

**Colin Amery** visits two shows which demonstrate a revival of interest in English classical architecture

During the next two months in London there will be several unique opportunities to absorb the complete history of the origins of English classical architecture, and to enjoy rewarding glimpses of what seems like a lost civilisation.

I am not certain what has brought about this explosion of interest. Palladianism is not exactly a new subject, and it is not a subject that is always easy to convey via exhibitions of old drawings. What is clear is that most people like "Georgian" architecture and respond to its dignity and proportions almost instinctively.

At the Royal Academy in London is one of the most charming and elegant architectural displays to be seen for a long time. Do not be put off by its title: "The Palladian Revival: Lord Burlington, his villa and garden at Chiswick" (until April 2).

The exhibition is, of course, scholarly, and much of the catalogue seems to be a private discussion between a small and remote group of architectural historians. But do not be daunted. The four rooms at the RA have been very well designed, and when you reach the gallery devoted to the gardens at Chiswick you will get a frisson of real pleasure at the sheer beauty of the ideas.

At the Royal Institute of British Architects' Heinz Gallery at 21 Portman Square, London W1 (until April 1), an equally focused but perhaps less glamorously mounted show explains "Lord Burlington's Town Architecture".

This provides an opportunity to examine in detail some of the original sources of much of London's 18th century architecture. The third Earl of Burlington (1693-1753) was more than a great amateur architect; he was also a patron and man of taste.

He built for himself and for others, and he brought to England many of Andrea Palladio's finest drawings. When he went on his second visit to Italy in 1719 he was greatly inspired by the monuments of Rome and the buildings in the north of Italy by Palladio.

With the accession of George I and the ascendancy of the Whig party, there was in England a helpful climate for cultural growth and the development of new styles of architecture. The baroque was out of the window and Christopher Wren and John Vanbrugh were to be replaced by Burlington, William Kent and Colen Campbell.

What is exciting about these two important London shows is what is in them and what they tell us about the development of style. But what is almost more enjoyable is that the buildings they are about can be seen and visited in and around London. Of equal interest to these shows is the walk that has been devised through the streets of London that lie between Piccadilly and Portman Square.

> As the need for offices in cities becomes less and less marked, surely the parts of a great city like London that were built as residential areas should be returned to their original use?

If you turn to the north into Sackville Street from Piccadilly, at No 36 you encounter one of the earlier Palladian houses (1732) in London by Henry Flitcroft. Around the corner in Old Burlington Street, at Nos 31 and 32, are two houses by the pioneer, Colen Campbell, built in 1718.

And in Grafton Street – Nos 3-6 – are some of the best 18th century houses in Europe. They were designed by Sir Robert Taylor in 1760 and have magnificent interiors. In Berkeley Square, Flitcroft was busy at No 45 and 46 but the star house in that square has to be No 44, designed by Lord Burlington's protégé, William Kent.

This has some of the best plasterwork and ceiling painting in Westminster, and a genuinely thrilling staircase. No 44 is in use as a private *gambling* club but it is in wonderful condition and occasionally a friendly commissionaire will let you see the staircase.

Davies Street, Brook Street and Green Street all have important unknown Palladian houses, and when you reach Portman Square you are face to face with one of the great architectural wonders of London: No 20 Portman Square, which is Robert Adam's finest town mansion.

It is a property of the Portman estate, and has been empty since the previous tenant, the Courtauld Institute, moved out to Somerset House. The National Trust failed to secure it and the estate is still hoping to find a private buyer. It is as good as any palace in St Petersburg, and it is a scandal that it is only occupied by security men and Alsatians.

What the walk between the dream of Chiswick House at the RA and the smaller show at the Riba demonstrates is that London's West End is still remarkably intact. But it suffers from the English love of the suburbs and the decline of the area as a residential one.

Houses of the quality of the 18th century ones in Mayfair and Marylebone would be lived in in Paris or Rome. They would not be occupied by office machinery and ruined by fluorescent lighting and security systems. As the need for offices in cities becomes less and less marked, surely the parts of a great city like London that were built as residential areas should be returned to their original use?

The recent revival of interest in classical architecture has revealed the wonders that exist right under our London noses. Is there any chance that the millennium fund – one of the five recipients of the national lottery's golden shower of funds – would think imaginatively enough to support the resurrection of civilised London life?

Come back, Lord Burlington, and inspire us again. Help us regenerate the very heart of our capital where there are so many forgotten architectural wonders.

## THE WEEK AHEAD

### DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abtrust High Inc. Trust 1.5p
Airtours 10.9p
Anglian Water 8p
APTA Healthcare 0.4p
Argyll 3.9p
Bank Ireland Stg. Prf. A (Tax cred. 0.6845p) 11.9516p
Do. Stg. Prf. Sers. A (Tax cred. 12.6263p) 37.8826p
Do. IR£ Prf. A (Tax cred. IR0.6316) IR11.36p
Do. IR£ Prf. A (Tax cred. IR12.0012p) IR 36.0072p
BOC 6¾% Bds. 2004 £67.5
Brad.& Bingley Bldg. Soc. Coll. FRN's '03 £35.99
Britannia Bldg. Soc. FRN's '95 £157.1
Bulmer (HP) 4.25p
Chugoku Elect.c Power 7% Nts. '97 $350
Druck 4.1p
Electra Inv. Trust 3.7p
Field 2.5p
Intl. Bank Rec. & Dev. 10¼% Nts. '99 £518.75
Jusco 6% 2/3 Cnv. Bds. '96 £30
LAB Inds. 7⅛% Sec. Bds. '19 3.5625p
Leeds Perm. Bldg. Soc. Coll. FRN's '03 £35.67
Lloyds Bank B Var. Rate Sub. Nts. '98 £162.25
Midland Bk Sub. FRN's '01 £78.55
Mitsubishi Materials Dual Basis Nts.'98 Y335000
NatWest Bank Und. Var. Nts. (Br. notes £10,000) £177.05
NT&T 6% Nts. 1998 $300
Northern Electric 9.8p
State Bank NSW 9¼% Bds. '03 A$92.5
Tesco 8¾% Bds. '03 £87.5
Tokyu Land 6.45% Bds. '97 Y645000
Toyobo FRN's '99 Y69513
Wagon Indl. 6.65p
Yates Bros. Wine Lodges 1p

■ TOMORROW
Amberley 0.25p
Dellen Lloyd's Inv. Trust 1p
Polar 3.1p
Sea Containers A $0.1925
Do. B $0.175
Wells Fargo $1.15

■ WEDNESDAY
FEBRUARY 22
Gold Fields Prop. R0.4

[illegible]

### UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Aukett Associates, 13 Chelsea Embankment, S.W., 12.00
Silvermine, Ashbourne Lodge, Ashbourne, Derbys., 11.30
Southern Business Grp., Queens House, Ullswater Cresent, Coulsden, Surrey, 11.00
BOARD MEETINGS:
Finals:
Baldwin
Interims:
Ashtead Group
BAT
Jackson (Wm)
Korea-Europe Fund
PizzaExpress
Regent Inns
Throgmorton 1000 Small

■ TOMORROW
COMPANY MEETINGS:
Archimedes Inv. Tst., Royex House, Aldermanbury Square, E.C., 12.30
Chrysalis Grp., London Kensington Hilton, 179/199 Holland Park Avenue, W., 11.00
Eurocopy, Oulton Hall Hotel, Rothwell Lane, Oulton, Leeds, 12.00
Eurotherm, Beach Hotel, Worthing, West Sussex, 12.00
Intercare Grp., Holiday Inn Crowne Plaza Midland Hotel, Peter Street, Manchester, 12.00
LPA Industries, The Eight Bells, High Street, Saffron Walden, Essex, 12.00
BOARD MEETINGS:
Finals:
Clondalkin Grp.
English & Overseas Prop.
GRE
Jupiter Intl. Green Inv.
Lazard Smaller Equities
Lombard Nth. Central
Pacific Assets Tst
Shires High-Yielding
Temple Bar Inv. Tst.
Yorkshire Chemicals
Interims:

■ WEDNESDAY
FEBRUARY 22
COMPANY MEETINGS:
Acatos & Hutcheson, The Tallow Chandlers' Hall, 4 Dowgate Hill, E.C., 11.15
Apollo Metals, National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, 10.40
Chemex Intl., 44 Worship Street, E.C., 11.00
Holmes & Marchant Grp., Brands House, Kingshill Road, High Wycombe, Bucks., 10.00

[illegible]
Rights Issues Inv. Tst.
Wise (Leslie) Grp.
Interims:
Tor Inv. Tst.
Usher (Frank) Hldgs.

■ THURSDAY
FEBRUARY 23
COMPANY MEETINGS:
Albion, Europa Hotel, Great Victoria

[illegible]
Newcastle Upon Tyne, 9.30
Trafalgar House, Queen Elizabeth II Conference Centre, S.W., 2.45
BOARD MEETINGS:
Finals:
British Gas
Green Property
London Forfaiting
Provident Financial
Royal Insurance
TR High Income
Telegraph

[illegible]
Aberdeen Trust, 10 Queen's Terrace, Aberdeen, 12.00
Bearing Power Intl., Institute of Directors, Pall Mall, S.W., 10.30
French (Thomas) & Sons, Sharston Road, Wythenshawe, Manchester, 12.00
M & G Dual Trust, Three Quays, Tower Hill, E.C., 11.00
Second Consolidation Trust, 8th Floor, Exchange House, Primrose St, E.C., 12.30
BOARD MEETINGS:
Finals:

[illegible]
Honeysuckle Grp.
Verity Grp.

*Company meetings are annual general meetings unless otherwise stated.*

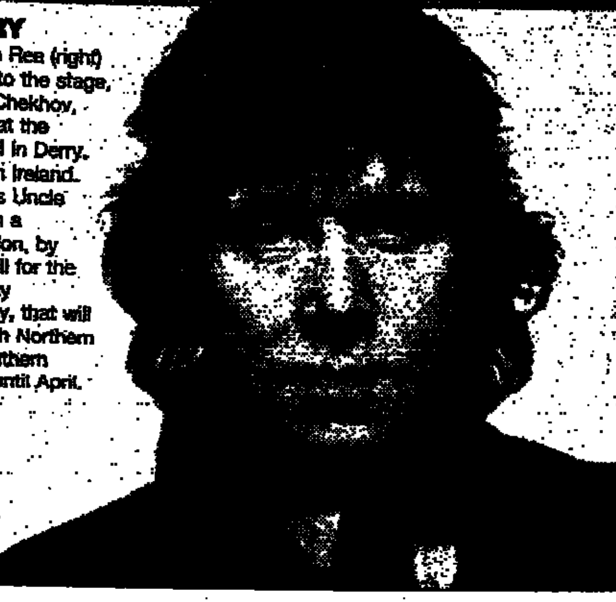
*Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.*

## CONTRACTS & TENDERS

ARTS

# OPENINGS

**DERRY**
Stephen Rea (right) returns to the stage, and to Chekhov, tonight at the Guildhall in Derry, Northern Ireland. He plays Uncle Vanya in a production, by Peter Gill for the Field Day company, that will tour both Northern and Southern Ireland until April.



**MUNICH**
Hans Werner Henze's (right) opera buffa "Der junge Lord" tells of an elegantly dressed ape who sets the fashionable tone for a bourgeois community in the German provinces. First performed 30 years ago, it enjoys a rare revival tonight at the Bavarian State Opera. Dennis Russell Davies conducts a staging by Günter Krämer. Also in Munich, a new production of Harold Pinter's "The Caretaker" opens at the Kammerspiele on Saturday.

**VIENNA**
At the turn of the century, the Viennese painter Isidor Kaufmann (1853-1921) won imperial patronage, despite his unfashionable subjects. His portraits and genre studies of Jewish subjects document a forgotten world of architecture, costume and daily life in outlying regions of the Austro-Hungarian empire. The Nazis dispersed or destroyed much of his work, but Vienna's Jewish Museum has gathered 80 paintings for an exhibition opening on Friday.

**TURIN**
For two weeks from Friday the Lingotto (the ex-Fiat car factory splendidly re-vamped by Renzo Piano) hosts the second edition of the biennial Antiques Fair. Centring on painting this time with numerous side-shows including an exhibition of portraits of young Italian royals at the family hunting lodge at Stupinigi.

**COPENHAGEN**
Elaine Padmore, former director of the Wexford Festival, arrived in Denmark last season with the brief of upgrading standards at the Royal Opera, ahead of Copenhagen's turn as European City of Culture in 1996. A new production of Wagner's "Tannhauser" opening on Thursday, will be a useful gauge of her success so far. The staging is by Francesca Zambello, and the cast includes Stig Fogh Andersen and Tina Kiberg.

**BRUSSELS**
A northern view of Renaissance Italy comes from a vast exhibition opening on Thursday at the Palais des Beaux Arts – Flemish Artists in Rome 1508-1608 – from Jean Gossart's sketches of Roman antiquities to Rubens (below). The show moves to Rome in June.

# Where are the stars in Berlin?

**Nigel Andrews finds a low razzmatazz quotient at the film festival**

Movies at this year's Berlin festival had the strange habit of arriving in twos. Two films about impossible love: Hong Kong's *Red Rose, White Rose* and America's *Before Sunrise*. Two British films about bizarre Liverpudlians: *Priest* and *Butterfly Kiss*. Two high-flying Oscar contenders: *Quiz Show* and *The Shawshank Redemption*. And two engagingly off-the-wall Wayne Wang comedies, shown together as a mid-festival pick-me-up.

So what is happening? Are films today coupling up prior to entering some pre-millennial ark? Or are they taking partners for cinema's own centenary ball?

Of the two films celebrating that birthday – Agnes Varda's *Les Cent Et Une Nuits* and Edgar Reitz's *Night Of The Directors* – one summed up everything good, the other everything bad about anniversary mania: and indeed about this year's Berlin festival.

Bad first. Varda's all-star "comedy" is like a 1970s Hollywood disaster film without the disaster. Famous faces surge across the screen; subplots collide; and a general air of dazed expectancy prevails. Michel Piccoli plays "Monsieur Cinema", a rich eccentric playing host in his memorabilia-crammed mansion to the likes of Mastroianni, Delon, Deneuve, De Niro and de-everyone else in modern cinema's acting elite, all playing themselves. There are dreams, sketches, jokes (mostly unfunny) and clips from great movies past. What there is not is an informing idea.

Reitz's feature documentary, by contrast, is lean, mean and incisive. It too fills the screen with the famous: Wenders, Herzog, Kluge, Riefenstahl and Germany's other top *regisseuren*, gathered together by digital trickery in an imaginary movie palace of the future. But over 90 minutes the film goads from each a precise and penetrative account of his place in his country's cinema, and his vision of that cinema and that country.

The two faces of film-making – celebratory, analytical – were also conjoined in the two "impossible love" movies. Stanley Kwan's *Red Rose, White Rose* is a familiar tale told with power and lyricism. A staid young businessman (Winston Chao) falls in love with another man's wife; then settles for respectable domesticity with a prim bride; then starts hankering again for the illicit, prematurely extinguished flame.

Kwan pours intelligence and imagination over the visuals like molten gold. In the scenes of forbidden romance, the radiance of human flesh and human face gleam through the traceries of shadow as if through the mazes of guilt; while in the chill account of the hero's marriage "bridal white" becomes the colour of an icy hell.

Richard Linklater's *Before Sunrise* is more laid-back, but no less lucent, about love's follies. American boy (Ethan Hawke) meets French girl (Julie Delpy) on Austrian train. During one penniless, peripatetic night in Vienna they talk, walk, fall in love – and after some brief passion in a park agonizedly part. Linklater, who made the scat teenage comedy *Dazed And Confused*, brings the same sense of crafted, comical serendipity to this two-hander about "meeting cute". It could be a Rohmer film re-made by a young Cassavetes.

There were other tales of folly or friendship *à deux*. Britain fielded a pair of scowling tragicomedies set on Merseyside. Antonia Bird's *Priest* has two Catholic dog-collar wearers (Linus Roache, Tom Wilkinson) fighting sexual temptation and vocational despair. Berlin roared at the film's caustic querying of dogma and ecclesiastical pomposity.

They responded more nervously – squeaks and apprehensive giggles – at Michael Winterbottom's *Butterfly Kiss*. Saskia Reeves and Canada's Amanda Plummer ply the Scouse accents in this road movie from hell. Plummer is the hitch-hiking serial killer, Reeves the well-meaning dimwit who tries to "save" her (spiritually speaking). They end up wading through blood in a plot that becomes oddly compelling the more it flirts with enormity and black hilarity.

In the age of Tarantino, "comedy" has become a movable concept. We laugh at things our parents would have gasped at. American independent cinema, an annual blast of irreverence at Berlin, gave us three films to remember this year, all throwing wit at forms of human catastrophe.

Stephen McLean's *Postcards From America* is a time-hopping tale of brutalised boyhood leading to gay (and brutalising) adulthood. One point for dubious psychologising; 10 points for boldly imaginative, whirligig visuals.

Terry Zwigoff's *Crumb*, a two-hour documentary about the eponymous counter-culture cartoonist (and creator of Fritz the Cat), anatomises not just Robert Crumb but his deeply weird family. They all seem to have strayed from a Charles Addams drawing – or one of Crumb's own. A suicidal brother; another brother who sits on a bed of nails; and a strident, *slurred-speech* mother who runs what seems to be a home for distressed furniture. (Greasy settee, windows hung with old quilts.) Funny and terrifying.

Pick of the non-competing US movies, though, was Tom DiCillo's *Living In Oblivion*. This is that old favourite, a film about film-making. But has there ever been a funnier one? DiCillo takes a knot of neurotics, has them try to untie their problems on an accident-prone low-budget movie set (fluffed lines, exploding lamps), then sits back to watch the perfectly judged chaos.

All these films shuffled around in the non-competitive Young Film-Makers Forum, with no hope of grabbing a Golden Bear. America's only modest-budget masterwork in the main event, fighting off biggies such as *Quiz Show*, *The Shawshank Redemption* and Paul Newman in *Nobody's Fool*, was Wayne Wang's *Smoke*.

Set in Brooklyn and scripted by Paul Auster, this is a gnomic comedy about chance, money and story-telling. Dealing out four main characters – cigar-shop manager Harvey Keitel, his ex-girlfriend Stockard Channing, writer William Hurt, wandering black "orphan" Harold Perrineau Jr – Wang and Auster watch them interact in a tale of delicious, seeming inconsequence. The film's message? That the "value" of human experience is like weighing smoke. (Attend to Hurt's *fable about Walter Raleigh.*) The film's manner? Chekhov meets Borges: with a side order of Mamet in the vividly stylised street talk.

In the same morning Berliners saw Wang's *Blue In The Face*: another shaggy-cigar yarn spun from the very same team (Wang, Auster, Keitel), using left-over plotlines, supporting actors and improvised dialogue. Filming in five days flat, Wang also threw open the set to any stars who wanted to guest through (Roseanne, Michael J. Fox, Madonna). Compared with *Smoke* this is more butt-ends and spilt ash: it was shown non-competitively, albeit in the main house. But it proved, as Wang pointed out at the press conference, that you do not need three months and $30m to make a movie, even an all-star one.

Where were the stars, though, in Berlin? Apart from Keitel and Hurt, generously providing a VIP double-whammy at the *Smoke* conference, no Hollywood glitteratus came near the place. *Quiz Show*'s Robert Redford, inked to appear, failed to show. Paul Newman, Bruce Willis, Melanie Griffith: all had films and would surely have made it to Berlin if the six-letter city were spelled C.A.N.N.E.S, or even V.E.N.I.C.E.

Instead the once-divided town may have lost its one claim to terrible glamour. That Wall. In the old days Sally Field and Jessica Lange would romp in, just to be photographed standing atop that monument to a sundered culture. But why would a Hollywood star brave the cold today or the low razzmatazz quotient? Berlin should work on this. Good movies are one thing. A good mythic venue is another and may – in the survival-of-the-fittest film festival world – be no less important.

Funny and terrifying: Robert Crumb, the cartoonist in 'Crumb', one of America's out-of-competition gems

Loonie: Ken Campbell

Alastair Muir

Theatre

# Mystery Bruises

The man wearing an army great coat and slippers on a summer's day gets on the bus and, at the top of his voice, talks about the Mark of the Beast and the coming of Lucifer. The passengers cringe in their seats – apart from one man, a small bulky, balding character, who edges towards the prophet with a gleam in his eye. It is Ken Campbell adding a new character to his collection.

Campbell loves eccentrics, especially those with daft pseudo-scientific theories about the secrets of the world. His current show *Mystery Bruises* introduces us to these fanatics and their perverse oddball philosophies. His credo is "just suppose". The problem is that, knowingly or not, Campbell has joined their gang. The anticipated moment of detached, cynical, observation does not come. Campbell is a loonie, too.

Or is he an actor? He is probably both, which means that you must approach his shows with some circumspection. To his fans he can do little wrong, and he has won a shelf-full of comedy awards. But if you have an inherent distaste for such foolishness you might find him heavy going as he crashes on from ruminating on the Cathar heresies, to buggery, and the Laughing Jesus, all by way of Halifax, Nova Scotia.

He starts portentously, re-creating the moment when two universes interfere with each other with the help of two containers of foam. Having destroyed the set and petrified the front row, he gets on with his anecdotes, which all exist in his own fifth dimension. He is at his best when he relates them to his own life – his experiences with transcendental meditation and an uncontrollable mantra; his encounter, as a job seeking actor, with Giles Havergal, a director he contacts because of his funny name.

Campbell worries that he "does shows for awful old gentleman you see in the basement of libraries". I suspect he does them for himself, an unstoppable conversationalist who grabs an audience with all the vigour of a Jehovah's Witness. Like the Witness he can rabbit on for ever – about the Prophet Mohammed being born from the leg of a man; about the Compendium Bookshop in north London which sells titles like *Practical Time Travel*.

Amid the dross there are glimmers of gold dust; among the tedious flights of fancy there are perceptive insights. But, like the bore on the bus, there is no escape. Be prepared to surrender yourself to another man's fantasy world.

**Antony Thorncroft**

King's Head Theatre, Islington until March 5.

# INTERNATIONAL ARTS GUIDE

## ■ AMSTERDAM

**CONCERTS**
**Het Concertgebouw** Tel: (020) 671 8345
● Royal Concertgebouw Orchestra: with soprano Sylvia McNair. André Previn conducts Debussy, Roussel and Ravel; 8.15 pm; Feb 22, 23, 24
**GALLERIES**
**Rijksmuseum** Tel: (020) 673 21 21
● Art of Devotion 1300-1500: major winter exhibition focusing on the spiritual function of objects in the medieval period; to Feb 26 (Not Sun)
● UKIYO-E: the finest Japanese prints; to May 28
**OPERA/BALLET**
**Het Muziektheater** Tel: (020) 551 8922
● Mazeppa: by Tchaikovsky. A Netherlands Opera production conducted by Harmut Haenchen and directed by Richard Jones.: 7.30 pm; Feb 21

## ■ BERLIN

**OPERA/BALLET**
**Deutsche Oper** Tel: (030) 341 9249
● Ein Maskenball: by Verdi. Conducted by Rafael Frühbeck de Burgos/Sebastian Lang-Lessing, produced by Götz Friedrich; 7.30 pm; Feb 25 (6 pm)
● Oedipus: by Rihm. conducted by Peter Keuschnig, produced by Götz Friedrich; 7 pm; Feb 21 (7.30 pm)

## ■ LONDON

**CONCERTS**
**Barbican** Tel: (0171) 638 8891
● Tippett: Visions of Paradise: Sir Colin Davis conducts the London Symphony Orchestra to play Stravinsky, Sibelius and 'Tippett's Symphony No. 4'; 7.30 pm; Feb 23
● Tippett: Visions of Paradise: Sir Colin Davis conducts the London Symphony Orchestra with mezzo-soprano Maria Popescu and tenor Laurence Dale to play Tippett's, 'The Mask of Time'; 7.30 pm; Feb 26
**Festival Hall** Tel: (0171) 928 8800
● City of Birmingham Symphony Orchestra: with pianist Paul Crossley and the Ladies of the CBSO Chorus. Sir Simon Rattle conducts Stravinsky, Messiaen and Bartók; 7.30 pm; Feb 25
● Novosibirsk Philharmonic Orchestra: with pianist Paul Crossley and bassist Anatoli Safiulin. Arnold Katz conducts Prokofiev, Shostakovich and Rachmaninov; 7.30 pm; Feb 20
● Pinchas Zukerman: Phillip Ledger conducts the violinist and the English Chamber Orchestra to play Bruch and Beethoven; 3.15 pm; Feb 26
● The London Philharmonic: Zubin Metha conducts Schubert, Berg and Elgar; 7.30 pm; Feb 23
● The London Philharmonic: Zubin Metha conducts Wagner and Webern; 7.30 pm; Feb 26
**GALLERIES**
**Roy Miles Gallery** Tel: (0171) 495 4747
● Anderson and Low: platinum-palladium prints of images based on classical themes, ranging from sculpture and Renaissance tableaux to geometrical studies; from Feb 21 to Feb 28
**Tate** Tel: (0171) 887 8000
● Willem de Kooning: a major exhibition featuring over 70 paintings drawn from private and public collections worldwide; to May 7
**OPERA/BALLET**
**English National Opera** Tel: (0171) 632 8300
● Madama Butterfly: Puccini's opera, originally directed by Graham Vick; 7.30 pm; Feb 22, 24
● Rigoletto: Jonathan Miller's updated version of Verdi's opera where the duke is a Mafia boss; 7.30 pm; Feb 23
**Royal Opera House** Tel: (0171) 340 4000
● Der Rosenkavalier: by Strauss. Conducted by Andrew Davis, directed by John Schlesinger. Soloists include Felicity Lott/Anna Tomowa-Sintow as Prinzess von Werdenberg; 6.30 pm; Feb 20, 24
● Giselle: music by Adolphe Adam. A Royal Ballet production choreographed by Marius Petipa after Jean Coralli and Jules Perrot and produced by Peter Wright; 7.30 pm; Feb 25 (1 pm)
● La Bohéme: by Puccini. Conducted by Simone Young/ Paul Wynne Griffiths, directed by John Copley. Soloists include Angela Gheorghiu/ Amanda Thane as Mimi and Maria McLaughlin/ Judith Howarth as Musetta; 7.30 pm; Feb 21, 23
**THEATRE**
**National, Olivier** Tel: (0171) 928 2252
● The Merry Wives of Windsor: by Shakespeare. Terry Hands directs his first production at the National. With Denis Quilley as Falstaff, Brenda Bruce as Mistress Quickly and Geraldine Fitzgerald as Mistress Ford; 7.15 pm; Feb 20
**Shaftesbury Theatre** Tel: (0171) 379 5399
● The Three Lives of Lucie Cabrol: adapted from John Berger by Mark Wheatley and Simon McBurney, who also directs. The Theatre de Complicite presents this violent love *story; 7.30 pm; to Feb 25 (Not Sun)*

## ■ MADRID

**GALLERIES**
**Mercado Puerta de Toledo** Tel: (91) 366 7200
● The Golden Age of Dolls: exhibition marking the 'Golden Age' of toy making (1840-1940), and its social impact. Over 800 exhibits; to Feb 24

## ■ NEW YORK

**GALLERIES**
**Guggenheim** Tel: (212) 423 3852
● Ross Bleckner: mid-career retrospective of the American artist consisting of approximately 75 paintings and works on paper; to May 14
**Metropolitan**
● Early Renaissance Florence: 100 panel paintings and manuscript illuminations by masters of the Gothic style; to Feb 26 (Not Mon)
● Thomas Eakins: exhibition *honouring the 150th anniversary of* the birth of the artist. This installation of about 30 works from the museums holdings explores the museums continuing interest in Eakins; to Feb 26
**OPERA/BALLET**
**Metropolitan** Tel: (212) 362 6000
● Der Rosenkavalier: by Strauss. Produced by Nathaniel Merrill, conducted by James Levine; 7.30 pm; Feb 24
● La Traviata: by Verdi. Produced by Franco Zeffirelli, conducted by John Fiore; 8 pm; Feb 22, 25 (1.30 pm)
● Simon Boccanegra: by Verdi. A *new production directed by* Giancarlo del Monaco.; 8 pm; Feb 21, 25
● Turandot: by Puccini. Produced by Franco Zeffirelli, conducted by Nello Santi; 8 pm; Feb 20, 23

## ■ PARIS

**CONCERTS**
**Opéra National de Paris, Bastille** Tel: (1) 47 42 57 50
● Myung-Whun Chung: conducts the orchestra and choir of the Paris National Opera to play Beethoven; 8 pm; Feb 21
**GALLERIES**
**Georges-Pompidou** Tel: (1) 42 77 12 33
● Kurt Schwitters: exhibition of works by the German Dadaist; to Feb 20
**OPERA/BALLET**
**Opéra National de Paris, Bastille** Tel: (1) 47 42 57 50
● La Damnation de Faust: by Berlioz. Conducted by Myung-Whun Chung and produced by Luca Ronconi. Soloists include Béatrice *Uria-Monzon* as Marguerite, and Thomas Moser/Gary Lakes as Faust; 7.30 pm; Feb 20, 23, 25

## ■ ROME

**OPERA/BALLET**
**Teatro Dell' Opera** Tel: (06) 481601
● Cosi Fan Tutte: by Mozart. The Royal Opera House, London staging directed by Jonathan Miller comes to Rome with conductor Evelino Pidò; 8.30 pm; Feb 21, 24 (6 pm) , 26 (4.30)

## ■ VIENNA

**CONCERTS**
**Gesellschaft der Musikfreunde** Tel: (1) 505 13 63
● Oslo Philharmonic: Mariss Jansons conducts Strauss, Stravinsky and Ravel's 'La Valse'; 7.30 pm; Feb 25, 26

## ■ WASHINGTON

**CONCERTS**
**Kennedy Center** Tel: (202) 467 4600
● James Galway: flutist with harpsichordist Phillip Moll plays Bach and Handel; 5 pm; Feb 25
**THEATRE**
**Horizon's** Tel: (703) 519 9123
● Kindertransport: by Diane Samuels. Jane Latman directs a moving play about the repression of memories in Nazi Germany and the survival of a woman and her relationships; 8pm; to Apr 4
**Studio Theater** Tel: (202) 332 3300
● Conversations with My Father: Herb Gardner's autobiographical work, directed by John Going. Sun 2pm and 7pm otherwise; 8 pm; to Feb 26 (Not Mon)

**WORLD SERVICE**
BBC for Europe can be received in western Europe on Medium Wave 648 kHZ (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**
(Central European Time)
**MONDAY TO FRIDAY**

**NBC/Super Channel:**

*07.00*
*FT Business Morning*

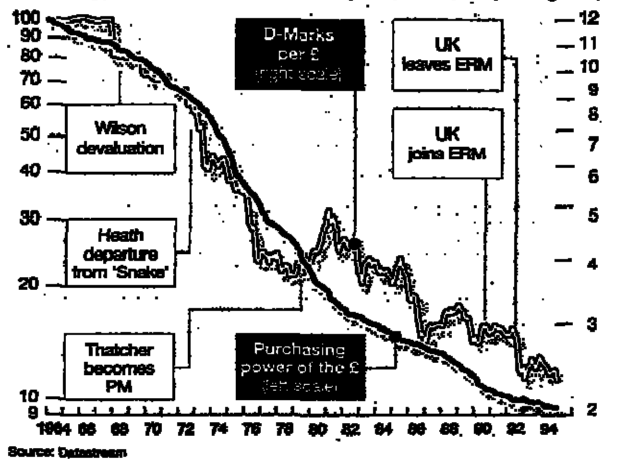
10.00
*European Money Wheel*
Nonstop live coverage until 14.00 of European business and the financial markets

17.30
*Financial Times Business Tonight*

Midnight
*Financial Times Business Tonight*

## Samuel Brittan

# Sterling should not stop Euro debate



Source: Datastream

It will take more than an *instruction* from the British prime minister to ban speculative discussions on European Monetary Union. The governor of the Bank of England has warned Conservative MPs that the recent weakness of sterling has in part been due to market perceptions of current disunity in the cabinet and in the Tory party. But even these words will not be enough to stop the debate on the subject. Nor should they.

Hardly anyone expects Emu to happen on the first possible date in 1997; cabinet unity behind opposition to early Emu is thus a hollow achievement. A monetary union among a core group of countries including Germany and France is, however, a distinct possibility by 1999, the mandatory date in the Maastricht treaty. If so the issue of British membership will have to be decided in the next parliament.

Maybe discussion can go ahead without the participation either of the Cabinet or the Labour front bench. In that case voters at the next election will simply have to trust their leaders to make the correct decision when the time comes, a trust they are rightly reluctant to give.

The only way that government and opposition leaders can legitimately opt out of the debate now would be a cast iron promise of a referendum when the time comes. The transfer of British interest rate decisions from the monthly Ken-Eddie show (named after the British chancellor and Bank of England governor) is a matter of constitutional interest, even though it does not in my view imply a United States of Europe. Surely citizens should vote on the issue.

Even a referendum cannot enforce indefinite party unity over an issue which cuts across partisan lines. It would therefore be best to give dissident ministers and opposition leaders a licence to speak out after the government has made its main recommendation. Harold Wilson did this with his European referendum in 1975.

Meanwhile the biggest difficulty in the face of Emu stems, not from tub-thumping politicians, but from the fright that bankers and traders have taken at the complexities and costs of converting national currencies. The prospect is of a mass conversion between currencies now exchanging at awkward decimal ratios. A long period in which currencies are "permanently fixed", but continue to circulate in national denominations is almost certain in the first years of Emu.

One authoritative suggestion is that, once the wholesale operations of the main commercial banks are denominated in the European currency, its use will spread very quickly even if its retail adoption is delayed. I suggest a simpler criterion: the acid test will be whether interest rate policy is seen to be transferred from national central banks to the new European one. If the Banque de France can convincingly say to critics of its monetary policy: put your question to the governor of the European Central Bank, we will know that Emu has begun.

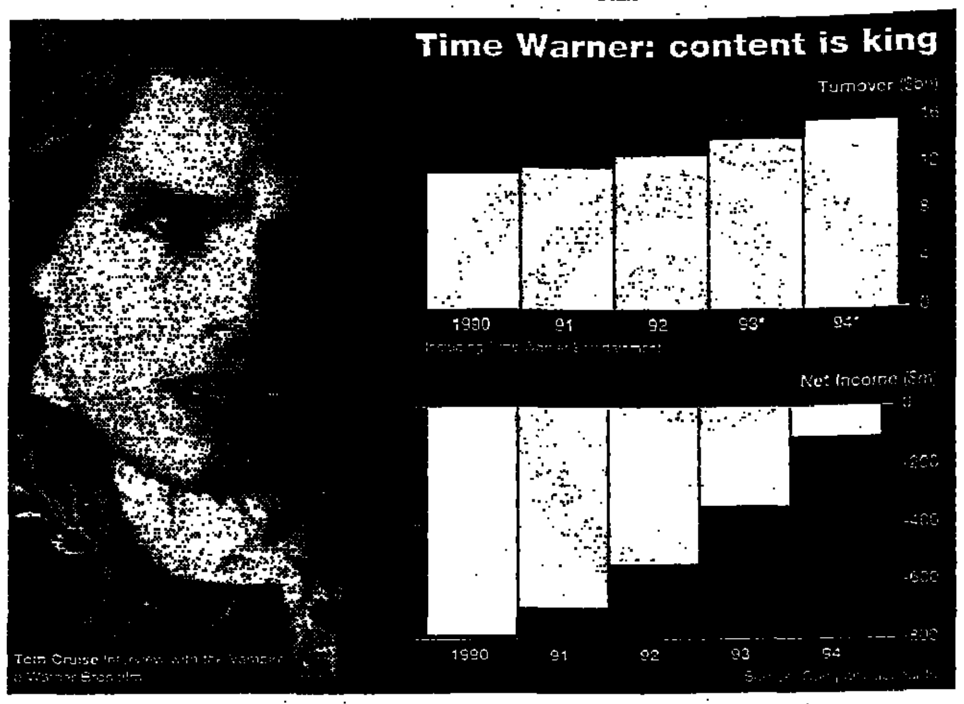
One great attraction of a successful Emu is that it will end the intolerable and unnecessary disturbances caused by runs into and out of broadly comparable European currencies, of which we have been reminded by sterling's recent difficulties. Emu by itself will not stop runs into and out of the dollar or the yen. But a zone of currency stability covering more than half the trade of its members is not to be sneezed at. There are enough real problems affecting business without unnecessary currency complications.

The accompanying chart is a reminder that ignoring the sterling exchange rate – or treating it like any other price, such as that of tomatoes – is not an option for a government that aims at anything approaching price stability. There is an uncanny parallel between the fall in the external and internal value of sterling during the last three decades.

Of course there have been intervals of a few years in which the two have moved in opposite directions. It is indeed probable that the effects on UK prices of the devaluation following ERM departure – which embarrassed many forecasters by failing to appear – are now having a delayed impact on prices. The breathing space in which they were cushioned by domestic recession is over. How British policy can cope with the dilemmas now thrown up is a complex matter requiring an article to itself.

# Bitten by the need for cable

## Gerald Levin explains Time Warner's ambitious acquisition strategy to **Tony Jackson**




In the strange and complex world of multimedia, one truth is held to be self-evident. Whatever twists and turns the technology may take, and whatever bizarre forms it assumes, people will still want the equivalent of a good film, a good tune or a good read. Content, in other words, is king.

The US media giant Time Warner is a king of content. It owns the Warner Bros film studios, a string of magazines *from Time to Sports Illustrated* and a formidable worldwide collection of record labels. It publishes best-selling books such as *The Bridges of Madison County*. By its own reckoning, it is the biggest holder of copyrights in the world.

Lately, however, the company has been in the news for a different reason: a series of enormous investments in the world of cable TV. Time Warner has always been a big player in this industry. But in the past month it has spent close to $5bn (£3.2bn) in deals which, according to its chairman, Mr Gerald Levin, give it "the finest collection of cable properties anywhere in the world".

This has proved unsettling to outside observers, Wall Street in particular. First, while Time Warner has a healthy cash flow, it has not made a profit since Time and Warner merged in 1990. This is partly because of the debt incurred in the merger; and the latest deals will push net debt to a formidable $18bn. To deal with this, Mr Levin has promised to sell some assets – around $3bn worth, by some estimates – and to segregate the cable business into a self-financing entity.

Second, there is the question of risk. Cable is not only close to the cutting edge of multimedia technology, and thus exposed to technological change. It is also subject to the unpredictable decisions of US government regulators.

Thus, for example, the authorities have recently cut back the rates which cable companies can charge their subscribers. More fundamentally, the regulatory rules keeping cable and telephone companies out of each others' markets are breaking down, so that each industry is gearing up to invest heavily in the other's business. This may well be healthy for the industry as a whole; but for any individual company, it could prove distinctly chancy.

Contrast this with the world of content and copyrights. Such venerable Time Warner properties as Bugs Bunny and Fortune magazine represent fully depreciated intellectual assets, for which the demand is long established and reasonably predictable. In the shifting world of multimedia, this seems an enviably low-risk proposition.

From an outsider's viewpoint, the question for Mr Levin is a simple one. The further he moves away from Time Warner's traditional business of creating films, music, magazines and so forth, the more he appears to raise the company's operational and financial risk. What makes that risk necessary or desirable?

Mr Levin's response is simply to deny the premise. It makes no sense, he says, to treat content separately from the way it is distributed: "They're two sides of the same coin."

The point about creative material, he says, is that it is not created in isolation from its audience, nor from the question of whether it will make money. "The value to creative content comes when it is going through the largest possible number of channels worldwide. The money is made on the distribution side, not on the content."

The process also works in reverse, he argues. If you own the distribution channels, you learn not just how to distribute, but what to create in the first place. "This is the most perishable, evanescent material," he says. "But over time, if you are in command of the distribution, you will end up financing the right things."

In itself, much of this seems uncontentious. More unusual is the scope of the investment it seems to involve. As a natural extension of cable, for instance, Mr Levin has ambitious plans in telephony. "I admit I'm being opportunistic," he says. "But if I can tap into a $100bn [local telephone] market, it seems to me absurd to deny myself because of some fad of perception. That will pay for a lot of other things I want to do."

Among those things is the so-called full service network, now being tested in a small number of homes in Orlando, Florida. This pioneering cable-based service will bring together – at considerable cost – all that Mr Levin believes in: video on demand, interactive games, home shopping, telephony and anything else the multimedia revolution throws up.

This comprehensive view of investment is not fully shared by Time Warner's peers in the content creation business. Walt Disney, for instance, has a relatively slight involvement in distribution. Viacom, which owns the Paramount film studio, is in the process of selling its cable interests.

The stock market value of the three companies in relation to their sales makes plain which formula Wall Street prefers. At present, investors value each dollar of Disney's turnover at $2.80, and Viacom's at $2.20. Time Warner's is valued at around 95 cents.

For Mr Levin, this calculation is irrelevant. "The only thing that matters for a business," he says, "is the cash you put in and the cash you take out." Last year, Time Warner's cash flow – defined as earnings before interest, tax, depreciation and amortisation – was $3bn, of which almost $1bn came from cable.

The robustness of the group's cash flow is perhaps his chief answer to the charge that he is risking too much on cable. In effect, he argues, the cable side can take care of itself. "We've been very conservative in what we're doing in cable," he says. "The returns are very strong, based on the current business."

He says, in addition, that "it's just not true that all our money and effort is going into cable". The group is still working on plans to start up its own US TV network – the so-called "fifth network", *on top of* the four national networks already established. It is also still building up a recently launched magazine, Entertainment Weekly.

While Mr Levin is plainly committed to his strategy, his problem lies in persuading others to share that commitment. Meanwhile, there are hints of concession to his critics: the most *substantial* being his recently announced plan to hive off the cable business into some kind of self-financing entity.

How exactly this is to be done remains unclear. Given the complex structure of Time Warner as it stands, and the large stakes held by such differing parties as the telephone company US West and the Canadian drinks group Seagram, it may prove tricky to bring off.

More to the point, it seems unnecessary in terms of Mr Levin's own logic. On the one hand, content and distribution are indissolubly linked in business terms. On the other, each is quite capable of taking care of itself financially. So why split them?

"I'm not unmindful of the financial community's view of the company," he says, "and I want to be responsive to that." After a pause for thought, he puts the point more carefully. "It's possible to have a structure which is satisfactory to those who do believe in the business, and those who don't, and those who can't make up their minds."

Meanwhile, he will go on doggedly preaching his message to an apparently unconverted world. "I don't mind people disagreeing with me," he says. "What bothers me is when they misunderstand."



# LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

## ODA fund shortage likely cause of aid cut

*From Mr Peter Madden and Mr Andy Rutherford.*

Sir, If Britain cuts its funding for European aid, as Baroness Chalker proposes, ("Britain and Germany to cut ACP aid", February 15) a host of others are likely to follow suit. This will result in a significant fall in aid to the world's poorest countries.

Baroness Chalker claims that she has to rob one aid budget line to fund others, but if the UK aid budget were higher (it is currently only half the UN target) we would not have to cut Lomé funding.

If choices do have to be made, why attack European aid? The Lomé Convention, while not without its faults, embodies a valuable idea of "partnership", it tries to improve trade relations and is targeted more at the world's poorest countries than the UK aid programme.

Perhaps the real reason for the proposed cut is nearer home. The Overseas Development Administration receives an inadequate aid budget and as a result is forced to make unacceptable choices. Given the current divisions over Europe in the Conservative party, the Lomé Convention becomes a target.

Peter Madden,
*Christian Aid*
Andy Rutherford,
*One World Action,*
*PO Box 100,*
*London SE1 7RT, UK*

## Competition office too limited

*From Ms Susie Symes.*

Sir, The independent EU competition office proposed by Anton van Schijndel (Business and the law: "A case for stricter discipline", February 17) is too limited in scope; it should surely cover not only state aid but also monopoly and merger cases currently dealt with at European level.

I hope the 1996 intergovernmental conference could go still further to promote institutional change that will help control the European Commission and make European decision makers – including the Council of Ministers – more accountable to the public.

I would propose an independent body to prepare, and publish, assessments of the overall economic impact of proposed European level policy interventions. Tests of whether the likely benefits to specific groups clearly outweigh the full costs to the economy are as important in deciding whether to implement anti-dumping procedures, or introduce labour legislation, as in agreeing specific sectoral support.

Yet such social cost-benefit analysis is sadly not part of the culture within the Commission, whose studies all too often neglect the costs to consumers, to taxpayers, to competing regions and to industry as a whole.

The UK Treasury used to do this sort of analysis rather well, but not for publication. The Dutch do it less systematically, but more transparently. The German federal government has an impressive 10-point checklist for justifying proposed legislation, including whether there is an acceptable cost-benefit relationship. No EU country has an independent "economic impact assessment agency"; the Australian Industry Commission might provide a suitable model for those preparing proposals for the 1996 intergovernmental conference.

Susie Symes,
*director, European programme,*
*Royal Institute of International Affairs,*
*Chatham House,*
*10 St James's Square,*
*London SW1Y 4LE, UK*

## Focus on the poorest who lost out

*From Mr John Hills.*

Sir, In his Economic Viewpoint (February 16), Samuel Brittan makes a number of interesting observations about the recent report of the Rowntree income and wealth inquiry group.

Central to his comments is the point that single number measures of inequality, such as the "Gini coefficient" most commonly presented in official and other studies, can produce ambiguous, or, depending on your viewpoint, perverse results.

For instance, if those in the middle of a distribution catch up on those at the top, but those at the bottom fall behind, has "inequality" fallen or risen? This is what happens in his example, and the inequality measure he chooses falls. Other measures, more sensitive to the position at the bottom, would rise.

While interesting, this is not, however, relevant to what has happened in Britain since the late 1970s, as can be seen from the graph of income growth for different income groups which accompanies Samuel Brittan's *piece. Between 1979 and* 1991-92, the period covered by the Department of Social Security figures, income growth was faster, the nearer the top of the distribution. The gaps between income groups grew at *all* levels: the bottom fell behind the middle, and the middle fell behind the top. "Inequality" grew, whatever measure one chooses.

But inequality measures are *not the main focus* of the inquiry group's concern or recommendations. They describe their central concern as "with the failure of the poorest 20-30 per cent of the population to benefit from recent economic growth", demonstrated not only by the DSS figures Samuel Brittan reproduces, but also by the wide range of other *data sources used in the* research programme which fed into the inquiry group. It is this which is the focus of their recommendations, not a target for some abstract statistical measure.

John Hills,
*reader in economics and social policy,*
*London School of Economics,*
*Houghton Street,*
*London WC2A 2AE, UK*

## Single currency would remove 'economic shock absorbers'

*From Mr Barry Legg, MP.*

Sir, I agree with Mr Charles Young (Letters, February 11) that it is regrettable that your newspaper has not carried articles setting out the intellectual basis for rejecting the idea of a European central bank and single currency, from a centre right viewpoint.

May I briefly deal with some of the more obvious defects in this concept. First, the establishment of a European central bank involves not only the loss of monetary sovereignty but also leads to the external control of fiscal policy. The convergence criteria are essentially conditions set to ensure that the governing council of the European central bank may set monetary policy against fiscal deficit, and member state debt positions, which they hope will not be disruptive to their objectives.

A single currency will mean that national currencies can no longer act as economic shock absorbers. Inevitably, significant fiscal transfers will then have to take place across the currency zone to compensate those regions adversely affected. Uncontrollable migration is also a likely result. Clearly, such changes involve a substantial loss of national sovereignty.

Mr Young referred to those such as Lord Lawson who have advocated Bank of England independence. As far as I am aware, those that have advocated such a change from a free market perspective argue that accountability to the British parliament is essential. Indeed, the New Zealand model has provided an example of how that might be achieved. On the contrary, the constitution of the European central bank effectively ensures that those responsible for running it are unaccountable.

The irrecoverable substitution of a European single currency for sterling provides scope for an even greater disruption to the working of our free markets than that suffered through our temporary membership of the ERM.

Barry Legg,
*House of Commons,*
*London SW1A 0AA, UK*

صكنا من الاصل



FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Monday February 20 1995

# Know-nothing Congress

The so-called National Security Revitalisation Bill, which passed the US House of Representatives last Thursday night, is bad news for all who look to the US for leadership in the post cold war world. That is to say, it is bad news for the world, since there is little sign of global leadership coming from anywhere else.

The bill places restrictions, described by the secretaries of state and defence as "unnecessary, unsound and unconstitutional", on the president's authority to involve US troops in any UN force whose commander is not an American. Notably it stipulates that the commander of any US unit so involved must have the right to demand confirmation from his own national superiors of any order from the force commander which he considers "illegal, militarily imprudent or beyond the mandate of the mission".

That would institutionalise one of the worst features of recent UN operations, namely the lack of a clear chain of command and the tendency of national governments to manage their troops on the ground behind the back of the force commander. It reinforces an impression, already widespread since the Somalia debacle, that the US will not contribute troops to any UN mission over which it does not have complete control. If other UN members took the same line it would become impossible to organise any UN missions at all.

## Required deduction

Even worse is the bill's requirement that the US deduct from its assessed financial contribution to UN peacekeeping any costs it incurs by voluntarily supporting or participating in UN peacekeeping activities. Those are broadly defined as "any international peacekeeping, peacemaking, peace-enforcing or similar activity that is authorised by the UN Security Council under chapter VI or chapter VII of the Charter". The administration calculates that these costs exceed the total assessment, so that deducting them would mean the US made no financial contribution to UN peacekeeping at all. If countries such as Britain, France, Canada or Sweden applied the same principle, UN peacekeeping operations would have to be closed down.

Third, and in an apparently contradictory spirit, the bill seeks to mandate a rapid eastward expansion of Nato, singling out four central European countries – the Czech Republic, Hungary, Poland and Slovakia – for special treatment. Thus while Congress's attitude to the UN seems isolationist, its attitude to Nato is unilateralist. The new Republican majority, unlike the last Republican administration, seems to understand neither the value of multinational organisations in achieving US foreign policy goals, nor the tact and flexibility with which they need to be managed.

## Veto recommendation

True, the bill probably will not become law, at least in its present form. If it passes the Senate, which is by no means certain, the secretaries of state and defence have recommended a presidential veto, and even in the House there is not a majority large enough to override one. President Clinton may well decide that safeguarding his authority to conduct foreign policy is favourable ground for the battle he is bound to fight with this Congress during his re-election campaign.

But that thought provides only a crumb of comfort for the US's friends and allies abroad. Congress may not be able to impose its own foreign policy on the president: potentially the most damaging test on that point is still ahead, over the unilateral lifting of the arms embargo on Bosnia.

What it can do is deny him the funds to conduct the foreign policy he believes in – and in their current eagerness to slash the deficit without raising taxes, while delaying as long as possible any onslaught on the sacred cow of "entitlements", the Republicans are very likely to do just that. It is the Senate, not the House, whose budget committee has just produced a draft report which would phase out not only peacekeeping but aid to Russia, other former Soviet Republics, Ireland, Turkey, Greece and Cyprus, and even overseas broadcasting.

A shift of priorities towards US domestic problems is understandable and even advisable. But a populist bonfire of all the instruments of global leadership is unworthy of the world's richest, most creative and hitherto most enlightened nation.

# Turning up the heat on power

As an unexpected demonstration of hidden wealth, Northern Electric's offer to pay each shareholder £5, to fend off an unwelcome takeover bid, has been inflammatory. To many, the display shows that the UK's present system of regulating its privatised electricity companies is not working.

The bid for Northern, one of the 12 regional electricity companies (Recs), by Trafalgar House, the conglomerate, comes against a background of national unease about the benefits of privatisation. Widespread public anger has been stirred up by sharp increases both in the utilities' share prices and in directors' salaries and share options. Other countries which are venturing down the road of privatisation are following the debate closely, to see whether shortcomings of the UK model of regulation can be avoided.

It is clear that the electricity privatisation has benefited managers and shareholders more than was expected – or intended. But the central question now is whether Northern's suddenly-unveiled financial strength demonstrates that the regulatory regime has been excessively lax. To keep Trafalgar House at bay, Northern has offered shareholders 507 pence per share, more than double the 240p they paid four years ago. The package includes a special dividend and proceeds from Northern's share in the National Grid transmission, an asset whose value was underestimated at privatisation.

The effect of the package, if accepted, would be to push up gearing (the ratio of debt to equity) to 225 per cent by March 1996. Gearing could still be over 100 per cent by the end of the century. Other Recs are expected to follow in returning value to shareholders, either on their own or as a consequence of takeover.

## Overcapitalised

It is fair to say that Northern's offer demonstrates that the regional electricity companies were hugely overcapitalised at privatisation. Trafalgar House is wrong to accuse the Northern management of financial recklessness. As stable, cash generative businesses, the Recs ought to carry high proportions of debt in their balance sheets.

There are grounds, too, for holding that the regulatory regime has been insufficiently tight since privatisation, and underestimated the scope for efficiency gains. Nor was last August's review of pricing structure, the first since privatisation, tough enough. Professor Stephen Littlechild, director-general of Offer, the regulator, was too generous in assuming a 7 per cent cost of capital for the Recs, given the low risks inherent in the business. So far, he has also failed to combat the serious lack of competition in electricity generation (which still shows small gains in efficiency since privatisation compared with distribution).

## Benefits

However, it would be wrong to overlook the benefits which privatisation has brought. The companies are leaner, and more responsive to customers. Moreover, the August review will give consumers real annual reductions in the cost of electricity. The review imposed one-off cuts of between 11 per cent and 17 per cent in distribution charges (which account for about a quarter of electricity bills), and then limited future annual increases in prices to 2 per cent below the retail price index. Prof Littlechild has said that the package will save consumers £2.5bn over five years.

Without dismissing the shortcomings of the review, there are strong reasons why the regulatory regime should not be changed during the designated five-year interval before the next one. Repeated interference would remove the incentive for companies to become more efficient. It would begin pushing the UK towards the model of regulation by rate of return on capital, rather than by annual price rises, a model which it has so far done well to avoid. It would also run the risk of curbing prices too much and removing the companies' incentive to invest.

Public anger at the rewards flowing to the managers and shareholders of utilities is understandable, and justified. But populist pressures to toughen regulation on an ad hoc basis run the risk of undermining regulation entirely. The system is far from perfect, but is evolving, albeit slowly, in the right direction.

John Authers looks at concerns over standards in UK higher education after a decade of growth

# A degree of quality assurance

The expansion of the UK's universities is "an amazing success story" of "mind-boggling" proportions, according to Mrs Gillian Shephard, the UK education secretary. Such claims are common among politicians, but in this instance she has a point.

The number of full-time first-year students in higher education in the UK has risen from 208,000 in 1982 to 436,000 in 1992 – despite a fall of more than 25 per cent in the number of 18-year-olds. Over the same period, the number of part-time students rose by 58 per cent.

But this enormous expansion has raised questions about the nature of higher education, and particularly about standards which the government and the universities are only now beginning to answer.

The expansion of the universities was launched in January 1989 by Mr Kenneth Baker, then education secretary. His target was to raise the number of school-leavers in higher education from less than 15 per cent to 33 per cent by 2000.

To encourage growth, Mr Baker introduced a new system of funding higher education that rewarded universities for the number of students they attracted. The results exceeded expectations, with the proportion moving on to university almost reaching Mr Baker's target by 1993, seven years ahead of time.

In the process, the level of participation by groups such as women and ethnic minorities has been raised. In the 10 years to 1993, the number of women graduates rose by 120 per cent.

The success of expansion led the government to cap funding for universities until 1996. This has provided an opportunity to consolidate the changes and turn to issues of structure in higher education that have been neglected in the dash for growth. Chief among these is the standard of qualifications. The education system officially treats all degrees of a given class as being of equal value, regardless of which university awarded them.

But a report published last year by the Higher Education Quality Council, the universities' self-regulatory body, found "little consistency and much variation" in classifying degrees between universities – and even between faculties of the same universities.

Employers are also raising questions about the quality of a degree. With a doubling in the number of graduates, recruiters are increasingly concentrating their attention on fewer universities, paying more regard to the institution that awards the degree than the degree itself.

The Association of Graduate Careers Advisory Services, which represents university careers services, has produced evidence showing a sharp decline in interest from recruiters in the 37 "new" universities which were created from the polytechnics in 1992.

Visits to these universities for job interviews have been cut by 23 per cent this year, compared with a drop of 14 per cent at the "old" universities. Employers' interest in the more prestigious institutions, including Oxford and Cambridge, is unimpaired.

Concerns over the quality of education throughout the system have been voiced by the Association of Graduate Recruiters – which represents the 300 largest graduate recruiters such as the big accountancy firms. It complained last month that vacancies for graduates were remaining unfilled because students had insufficient skills in communications and teamwork.

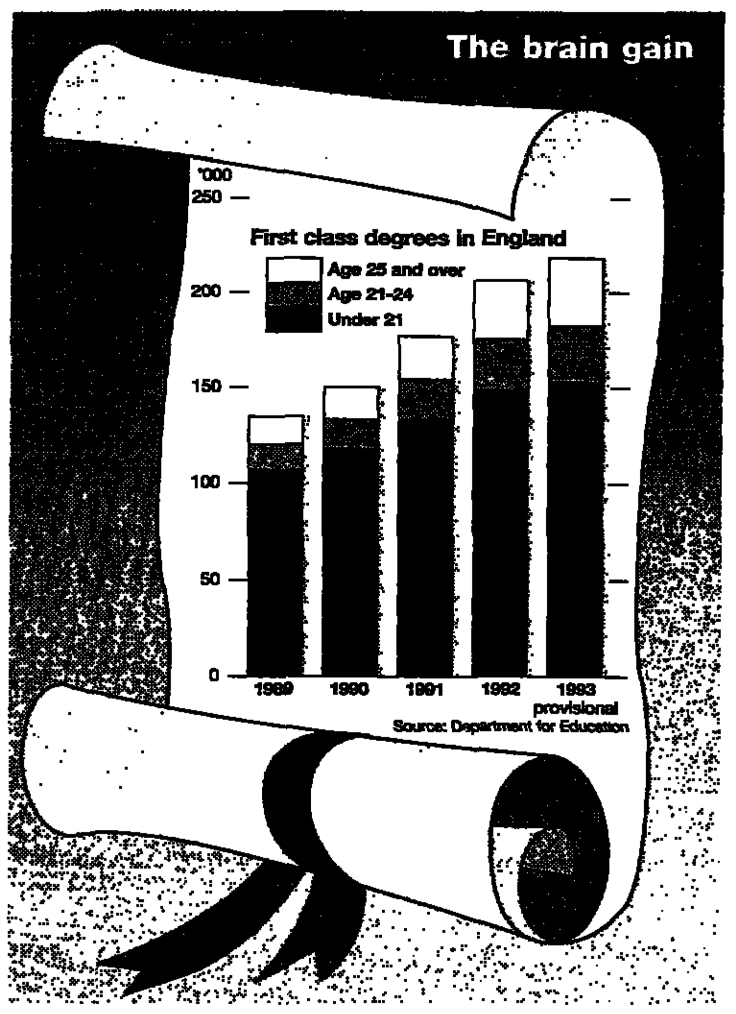
The 50 per cent increase in the proportion of students at "old" universities winning first-class honours over the last 10 years is also seen by some as disquieting evidence of an overheating system.

With employers and academics increasingly concerned about the quality of a degree, Mrs Shephard has launched a review of higher education that is due to report at Easter. In addition to tackling quality assurance, it is examining course structure, the length and structure of the university year, the honours degree system and the methods used to select students.

Mrs Shephard is determined that her review will be far-reaching. "We've got to ask ourselves questions as fundamental as 'what's a degree and what's it for?'," she says.

Her own belief is that a degree should be much more of a preparation for the world of work. She welcomes the greater role universities are playing in improving the skills of the adult workforce. "As important as the expansion in numbers is the fact that half of the people engaged in higher education are over 21, which really means an expansion in opportunity."

The task of the review is to allow them to do this by making higher education as accessible to as many people as possible while simultaneously safeguarding – and if possible raising – quality.




Proposals to the review revolve around two central themes. On the first – more flexible patterns of study – many institutions have already made progress. On the second – common, transparent standards on qualifications – further work is needed.

Most universities have adopted a modular system, where degree courses are divided into units that can each be taught and assessed within a term. This allows students to spread their degree over a long period. Even Oxford, as traditional a university as any, has set up a committee of inquiry to explore modular degrees.

The more radical possibilities arising from "modularisation" have been explored by Professor David Robertson of Liverpool John Moores University in a report *Choosing to Change*. He argues that modular degrees could embody an assessment system that would be more useful for employers than the traditional honours system. Instead of a First or an Upper Second degree, students would be given a standardised national transcript, detailing the courses they had attempted, and how well they had coped with them.

Setting up such a system would also allow "credit transfer" so that students' modules counted towards degrees even if they moved to another university. In the process, different institutions would have to agree on at least minimum standards thereby meeting employers' needs to demonstrate quality in a transparent framework.

While the development of a national credit transfer system is at an early stage, consortia of universities in Scotland, Wales and the south-east of England are already working on regional systems.

The Higher Education Quality Council is also working, on government instructions, at producing "threshold criteria" for each subject. This would ensure that a degree from each institution would guarantee at least a certain minimum standard, without attempting to ensure that all degrees were exactly equivalent.

The introduction of modules is also leading to a move away from the traditional three-term academic year. The US system of two 15-week semesters a year is catching on, with about two-thirds of institutions now using it in some form.

Semesters, like modules, offer students greater flexibility. Mature students can spread a three-year course over six years by taking 15-week career breaks each year. Alternatively, at Buckingham University, the UK's only private, fee-paying institution, students can complete a degree in two years by doing three semesters each year.

Finally, admissions procedures are also being re-examined to widen access to higher education. Domestic admissions currently rely almost wholly on applicants' results in A-level exams.

But many universities are now admitting students on vocational qualifications such as General National Vocational Qualifications, which were piloted for 18-year-olds last year.

Professor Ray Cowell, vice-chancellor of Nottingham Trent University, already accepts students with GNVQs which he believes are a better preparation for vocational degree courses than A-levels. Several former polytechnics are developing routes for mature students to enter via "access courses" offered by further education colleges.

Such experiments will provide plenty of raw material for Mrs Shephard's review. And the willingness to try new approaches suggests that establishing a consensus for change should be possible.

Disappointed as many in higher education are that finance for further expansion has been temporarily curbed, the universities are keen to ensure that they are well-prepared for further growth when funds permit.

# Nato's agenda for new European order

PERSONAL VIEW

With peace in the former Yugoslavia still not in sight, and large-scale destruction in Chechnya, Europe's security challenges seem to many to be growing.

Even if this view is unduly pessimistic, this is not a time for complacency nor for concluding that Nato has lost its role.

The core function of the alliance remains the defence of its members' territory and independence. Nato can also make an important contribution to preserving stability in the wider Europe and moving towards a new European security order.

In Bosnia, Nato support has been essential to the United Nations mission. Nato and the UN have together contained the conflict in the former Yugoslavia, thus preventing a wider war. But in future crises we must do better. Nato must be called upon earlier, before the costs of overturning aggression have become unacceptably high. We must have clearer mandates and Nato's autonomy to implement them effectively must be respected. Efficiency and credibility are Nato's most precious assets.

The alliance recognises its obligation to help the countries of central and eastern Europe achieve democracy and liberty.

Partnership for Peace – Nato's main tool for building closer links with the countries of central and eastern Europe – is well on track.

We are also addressing the crucial question of enlargement. In December, the alliance started a study examining the principles that will guide this process and its implications for Nato members.

Nato will enlarge. But enlargement cannot be an end in itself. It must contribute to Europe's wider stability. Nor should enlargement be a zero-sum game, where membership for some would translate into a loss for others. We must avoid new dividing lines in Europe. Enlargement must be viewed as expanding a community of values, not an exercise in exclusion.

This raises the issue of Nato-Russia relations. While Russia's problems are likely to continue for many years, and despite the serious setback of Chechnya, some parameters for a sustainable relationship can be defined.

We must acknowledge Russia's weight in European security and its legitimate security interests. We need a co-operative relationship, with Russia pursuing democratisation and economic reform, and respecting human rights: an open relationship that can withstand occasional differences.

**We have no wish to conjure up imaginary security challenges to justify Nato's existence**

In my view, this is within our grasp. Russia joined the Partnership last June and has agreed to develop with Nato an enhanced dialogue and co-operation in areas where it has a unique contribution to make.

The fact that Russia has not yet agreed to start its Partnership activities should not be over-dramatised. Our offer remains on the table, and it is up to Russia to make up its mind. I am confident Russia will realise it is too big a country to be isolated from Europe by others. It can only isolate itself.

Nato is also changing internally. The drive towards European union offers a unique opportunity to forge a new transatlantic bargain. One element of this is the Combined Joint Task Forces concept under which the alliance will be ready to lend its assets to the Western European Union in situations where it chooses not to take action itself.

A rebalanced alliance must remain an outward-looking instrument for tackling the security challenges ahead. This is why we have put non-proliferation on the agenda.

Our policy towards the countries of the southern Mediterranean must also be proactive and must be based on dialogue and openness, not confrontation. Nato's aim is to contribute to security and stability in the Mediterranean region and to achieve a better mutual understanding with our southern neighbours. We hope the countries involved will speak frankly about their concerns.

The countries we propose approaching initially are Egypt, Israel, Mauritania, Morocco and Tunisia. This list may be extended.

It has been suggested in the media that the Mediterranean initiative is focusing on Islamic fundamentalism. But this issue will not even be on the agenda when Nato talks to these countries. Religious fundamentalism – whether Islamic or of other varieties – is not a concern for Nato.

The things which do concern Nato are instability and threats to regional security, including weapons proliferation. Nato has no quarrel with Islam. And we have no wish to conjure up imaginary security challenges to justify Nato's existence: there are enough already.

This agenda is a realistic response to the challenges facing us. The transatlantic link can be a dynamic force for the future, provided we have the wisdom not to change a winning team.

**Willy Claes**

*The author is secretary general of Nato.*

# OBSERVER

## Deutsche's soul-baring

■ Deutsche Bank, Germany's largest, is baring its soul to mark its 125th anniversary. It has bravely commissioned five historians – three German, one US and one British – to write an independent "warts and all" history of the bank.

The 1,100 page book, to be published in March, shows the bank in a mixed light during the Nazi period – not wholly bad, but certainly not heroic. "Banks adjust to reality – that is their job," writes Harold James, the UK historian, in his chapter on the Nazi years.

Deutsche Bank was closely involved in the Aryanisation of Jewish property, acting for a regime which regarded banks as "parasitic". Its own Jewish directors were eased out, with Nazi employees exerting strong pressure. But some victims of anti-semitism were helped by the bank.

Banks were passive under the Nazi regime. No Deutsche Bank officials were involved in the July 1944 plot to blow up Hitler, though Hermann Josef Abs, a director who eventually became the bank's head, did have loose contacts with the resistance. He was careful to leave no evidence that could destroy him.

Two branch managers were not so lucky. They were executed for "defeatist statements" – one for calling Hitler a "swindler", Goebbels a "monkey" and Goering a "fat gut", and the other for saying fascism was finished.

James says these men were not heroic: "They were simply unlucky." They forgot to turn a blind eye when that was the way to survive.

## Say cheese

■ Blood pressures are pounding among the diplomatic corps in Copenhagen, as the United Nations World Summit on Social Development approaches.

The problem is the summit's accreditation procedure. About 10,000 delegates and media types, including 121 heads of state and government leaders, are expected to turn up for the summit, staged in the Danish capital between March 6-12.

The usual procedure at such mega-conferences is that delegates – though not the hacks – send in their photos beforehand and a badge of accreditation awaits their arrival.

Not this time. For security reasons it's been decided that *all* delegates – the only exceptions being heads of government or government ministers – must be photographed on arrival at the conference centre.

This might cause a few queues as, according to Danish officials, the UN has only 12 photo machines available.

Fearing a riot, high-level representations have been made by the Danish government to the UN organisers – to no avail. From New York comes the message that everything will be all right on the night: "If there are any difficulties, we shall take action on the spot to solve them."

Like passing round a Polaroid?

## Bangkok stews

■ Travelling to Bangkok in the near future? A word in your ear – think again. The city's already horrendous traffic chaos will from today get much worse.

For now you will have to cope with construction work on the Bangkok Transit System Corporation's 23-km elevated railway. "Most people are going to find it quicker to walk around town," says a senior police officer.

Disruption caused by the work is likely to last three years. Prime Minister Chuan Leekpai last week said: "We'll all just have to put up with the inconvenience."

Anyone adversely affected by the heat and traffic pollution will be unlikely to find respite in local hospitals; local doctors now report that the ear-shattering traffic noise around many Bangkok hospitals makes patients feel even worse than when they arrived.

## Taking notes

■ How should a country avoid implementing a major monetary reform? Ukraine gives a clue.

The second-biggest former Soviet republic planned to ban all hard currency transactions by last Saturday. Everything from Italian pesto sauce to shiny new Fords would have to be paid with the karbovanets, Ukraine's famously unstable currency.

Just before midnight on Friday, the central bank governor called it all off from Washington where, with supreme irony, he was looking at how the Federal Reserve manages the dollar.

Now Ukraine plans to introduce a new currency – the hryvnia – later this year, to replace the sickly karbovanets. And after the hryvnia, what?

## Mind expanding

■ Although there's more than 10 months to go before Christmas, maybe you should have an early warning about what your children might demand from Santa.

At the recent New York toy fair some of the hottest items included dolls to dissect, a cemetery board game, and something called "Gooey Louie".

Louie is a brightly coloured 12-inch plastic head with a huge nose, from which players pull long, green strands of a viscous substance. A player loses by pulling a strand that causes the head to explode open, exposing a red jellied brain. The last player left wins. Kids apparently love it.

## The Financial Times

### 100 years ago

**The US Bond Issue**

New York: On the Stock Market today, the noteworthy incident was the placing of the four per cent bonds for sale by the bond syndicate . . . the price of which is fixed at 112¼ per cent, 12¼ being payable on allotment.

The exports from the United States during the past week amounted to £5,472,475.

Mr Carlisle, Secretary of the Treasury, has sent a letter to the Senate stating that the Treasury should be granted permanent authority to issue short bonds in order to meet the deficiencies of the ordinary revenues.

### 50 years ago

**US airlines to cut fares**

American Airlines has announced that it has received permission from the Civil Aeronautics Board to cut domestic passenger fares by 6⅔ per cent, beginning 10th March. This is the first of the proposed fare cuts approved, and indicates that the trend in this direction has Governmental approval. The airline has also been given permission to restore 5 per cent of the 15 per cent reduction formerly offered to holders of travel cards and Government personnel on business trips.

FINANCIAL TIMES
Monday February 20 1995



# Tobacco giants draw new fire

## A massive class action claiming damages for nicotine addiction could cost cigarette makers a packet, writes **Richard Tomkins in New York**

In the course of more than 20 US court cases since the risks associated with smoking were first recognised, the country's cigarette manufacturers have never had to pay out so much as a cent in damages to smokers. But could that be about to change?

On Friday a New Orleans court opened the door to a multi-billion dollar lawsuit against the US tobacco industry that could turn out to be the biggest class action in legal history.

Some 60 law firms have thrown their weight behind an attempt to sue the cigarette manufacturers on behalf of tens of millions of US citizens who have smoked in the last 50 years.

The number of claimants will depend on how many people reply to advertisements inviting them to join the action. But the class could include up to 40m present smokers and 50m former smokers in the US, plus relatives of many more who have died.

It is hard to say how large the damages would be if the class action succeeded. But if only 10m people were to join the action, and the damages awarded were as little as $10,000 per person, the figure would be $100bn.

In comparison, the amount so far awarded to victims of asbestos-related diseases against the asbestos industry is about $10bn; the punitive damages recently awarded to Alaskans affected by the Exxon Valdez oil spill was $5bn; and last year's settlement of a class action against the manufacturers of silicone breast implants was $4.2bn.

Mr John Coale of Coale & Van Susteren, one of the law firms leading the tobacco lawsuit, says he believes claims could total $300bn. "But I don't think the courts will let someone bankrupt the US tobacco industry," he says. He thinks a more realistic figure would be about $50bn.

First, however, the plaintiffs have to win. The precedents are not good: in every previous case where people have sought compensation for health damage caused by smoking, juries have taken the view that anyone who lights a cigarette automatically accepts the risks involved because these are so well known.

However, in this case – known as Castano after one of the plaintiffs – the lawyers are trying a different approach. Instead of seeking compensation for health damage, they are seeking it for people's addiction to cigarettes, accusing the tobacco companies of knowingly using nicotine content to "hook" smokers.

The lawsuit was prompted by evidence produced at congressional hearings last year suggesting US tobacco manufacturers not only knew of the addictive properties of cigarettes, but concealed the evidence for decades.

The tobacco industry's first priority is to stop the case going ahead as a class action. At a court hearing in December, manufacturers argued that a class action was impractical because it would be impossible to verify who was eligible to join it. The plaintiffs said one test would be if they had carried on smoking in spite of being warned by a doctor to give up. But federal Judge Okla Jones, who heard the case, criticised the plaintiffs for failing to spell out more clearly how they would sift out fraudulent claims.

Delivering his ruling on Friday, Judge Jones said he would not approve a class action for compensatory damages, such as refunds of money spent on cigarettes or the cost of monitoring the health consequences of their alleged addiction; these would still have to be pursued individually. But in a serious setback for the manufacturers, he said he would allow smokers to sue as a class for punitive damages for alleged fraud or negligence on the part of the tobacco industry.

The cigarette companies said they would seek leave to appeal. They warn that if a class action is permitted, they will demand an individual trial for each would-be participant to determine their eligibility to join it, clogging up the US legal system for years.

The companies want to demonstrate that each person voluntarily chose to begin smoking in full knowledge of its consequences. They believe this would allow them to demonstrate there is no difference between the Castano case and all those that have gone before. Just as the health risks associated with smoking are well known, they say, so is the risk that people may find the habit hard to kick.

Even so, the legal climate appears to be increasingly hostile as anti-smoking sentiment mounts. The industry looks set to suffer an assault on another front this week when the State of Florida files a $1.43bn lawsuit against cigarette manufacturers seeking compensation for costs incurred by the state in treating smoking-related illnesses.

## THE LEX COLUMN

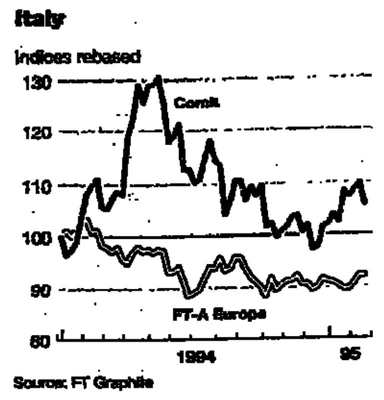
# Dini's debt challenge

Pushing through this week's Italian mini-budget was supposed to be the least controversial element of prime minister Lamberto Dini's four-pronged political programme. But, with the big parties saying they are unwilling to endorse unpopular tax increases, his administration looks increasingly fragile. Last week's 4 per cent drop in the stock market and renewed decline in the lira were the consequences.

The budget will probably still pass. If not, Mr Dini will stand down, the lira will collapse and interest rate rises will be necessary. Few politicians will want to bear the responsibility for that. Nonetheless, it is increasingly apparent that Mr Dini's pledge to reform the electoral and pension systems will be almost impossible to achieve. He may also be forced to promise Mr Silvio Berlusconi early elections as a way of buying his support for the budget.

Italy needs a strong government that can tackle its debt problem head on. Recent administrations have at least secured a budget surplus before financing, but – because interest payments are so large – the overall debt is still rising. Meanwhile, the falling lira is starting to fuel inflationary pressure. This is another reason why interest rates could soon rise, increasing further the cost of funding the state debt.

Even passing the budget – essential as it is – will add to the problems in the short run, since expected value added tax increases would lead to higher retail prices. Corporate earnings may be growing fast, with the result that equities look fundamentally undervalued. But it would be a brave investor who poured cash into the current political maelstrom.



Source: FT Graphite

## MAM

The immediate tasks for Sir David Scholey and the new top team at S G Warburg are to cut costs, remotivate staff and forge a credible future strategy. Sooner or later, though, Warburg will have to decide what to do with Mercury Asset Management.

MAM's much vaunted independence scuppered the parent's planned merger with Morgan Stanley. Relations between the two must be strained, whatever the official line. The failure demonstrates that Warburg's 75 per cent stake in MAM does not give it control. The ability of the tail to wag the dog, currently something of a mongrel, reflects economic reality. The fund management group accounts for £1bn of the parent's £1.6bn market capitalisation, and virtually all its current profits.

Warburg has several options: to sell the stake, distribute its MAM shares direct to Warburg shareholders, buy out the minority or do nothing. A sale would liberate capital for investment elsewhere, but denude the group of an ample cushion against more volatile investment banking earnings. Distributing shares would appeal even less to management, as it would not raise cash – though it might be good for investors. Buying out the minority would be unrealistically expensive.

That leaves doing nothing as the best option in the short run. Still, holding on without effective control exposes the parent to the risk that its subsidiary will scupper future strategic plans. That means in the medium term the status quo may prove unsustainable. Meanwhile, Warburg must ensure MAM fully supports future strategy as it evolves.

## Zeneca

Zeneca, ICI's former bioscience business, is being touted by some as a potential counter bidder for Wellcome and by others as the next takeover target. The former is scarcely credible; the group does not have the resources to effect Wellcome's rescue. The second is unlikely. If few companies have the financial clout to top Glaxo's £9bn offer for Wellcome, fewer still can afford Zeneca. A similar 50 per cent bid premium would value the company at £12.6bn.

A merger is marginally more likely, but scale for scale's sake is no strategy; if big were always better, Aeroflot would be the world's best airline. Only those drugs companies with stuttering sales and slowing profits growth need mergers as a means of increasing earnings through rationalisation. Zeneca is not in that position. Its prospects are promising. The group, unlike Wellcome or Glaxo, has already suffered the worst effects of the US patent expiry of its top selling medicine. True, this year's earnings growth is unlikely to be spectacular because of the lamentable performance of the specialities division. But the drugs division is expanding strongly, helped by its powerful position in niche markets such as cancer. Although governments and insurers are increasingly cost conscious, they are still willing to pay for medicines that fill unmet medical needs. Zeneca's pipeline of new medicines is among the industry's most innovative and should generate good growth for the future.

## Stock futures

It is an inauspicious moment to launch a futures market for individual shares. Losses at Orange County and Procter & Gamble created suspicion of the complexity and leverage offered by derivatives. Then there is the regulatory controversy over Trafalgar House's use of "contracts for differences" – effectively, a bet on the movement of share prices – in its bid for Northern Electric. But the London International Financial Futures Exchange should not be discouraged in its current assessment of the potential for futures on individual shares.

Futures trading, contrary to folklore, allows investors to control risk, rather than just create it. Of course there are concerns: they could, for example, be used to manipulate prices in the cash market. But as long as they are limited to the largest capitalised companies, this would not be possible. Meanwhile, suggestions that a market in stock futures will take business from the stock market due to tax advantages – stamp duty may not be payable on such contracts – seem far fetched.

Market makers and pension funds, who would be the core investors in stock futures, would use the market to arbitrage positions in underlying shares rather than as an alternative. Finally, regulation is likely to be better addressed through a formal market, rather than the current system of over-the-counter contracts.

Stock futures have been successfully introduced in other markets. If London is to retain its position as a leading financial centre, it must be commited to new ideas and products.

# Ministers meet today over EU fraud curb

## Plans to safeguard Ecu81bn budget include setting up hotline for informers

By Lionel Barber in Brussels

Finance ministers of the European Union will today discuss tougher measures to combat fraud against the EU's Ecu81bn ($99.2bn) annual budget, including plans to set up a hotline for informers.

The anti-fraud campaign will be led Ms Anita Gradin, the new Swedish commissioner, who can expect enthusiastic support from the UK, Germany, the Netherlands and the Nordic countries.

Ministers attending today's meeting in Brussels are also expected to discuss guidelines for EU macroeconomic aid to third countries, specifically eastern Europe; a relaunch of previously blocked indirect tax measures; and a consultative paper on the technical aspects of the planned move to a single currency by the end of the decade.

Mr Jacques Santer, president of the European Commission and a former prime minister and finance minister of Luxembourg, is committed to tightening financial controls inside the Commission and cracking down on fraud against the EU budget.

Along with Mrs Gradin, Mr Santer is expected to allude to a planned increase in Commission staff and a more systematic approach to pinpointing areas where the risks of fraud are greatest.

Ministers are to debate in closed session a European Commission paper setting out guidelines for macroeconomic aid to third countries. This follows warnings from Mr Kenneth Clarke, UK chancellor of the exchequer, that the EU should avoid turning itself into a "shadow IMF".

Mr Clarke became concerned last year after the EU broke new ground by agreeing to disburse an Ecu45m balance of payments loan to the former Soviet republic of Moldova.

A row followed when the US and Germany pressed, ultimately successfully, for an Ecu85m EU loan to Ukraine which was needed to trigger an international rescue plan aimed at plugging a $1bn gap in Ukraine's balance of payments.

Ministers are due to discuss an Ecu75m loan to Belarus today, and future balance of payments lending to Ukraine seems certain. But Commission officials said the paper, which was approved by the secretive European monetary committee, which consists of national treasury officials, offered little change from earlier guidelines agreed in autumn 1993 in Genval, Belgium.

"Macroeconomic assistance to distressed countries is being considered on a case-by-case basis," one official said, "and that is not going to change."

# Row looms over $77m rescue for Irish Steel

By John Murray Brown in Dublin and Andrew Baxter in London

A row is looming over plans by the Irish government to spend I£50m ($77m) on rescuing Irish Steel, the loss-making state-owned producer which is the country's only steel mill.

The Irish cabinet is expected to decide tomorrow whether to approve the rescue plan for the plant in Cork, southern Ireland. The British steel industry is promising to fight the rescue plan, which would have to be approved by the European Commission. "We will go the whole way, to [the European] court if necessary, to stop the rescue," said one official.

The plan would comprise a grant of I£40m and I£10m of loan guarantees. But Mr Richard Bruton, Ireland's enterprise and employment minister, said last week the government was also weighing up the cost of closure.

The plant has 350 employees and accounts for less than 1 per cent of total European Union steel output. However, the fate of Irish Steel has wider ramifications. If the rescue goes ahead it could pose a dilemma for the UK government, which has opposed subsidies to steelmakers in continental Europe.

With Anglo-Irish relations delicately poised over the progress of the Northern Ireland peace process, industry officials believe broader considerations may come into play if the UK's Department of Trade and Industry tries to oppose the rescue.

The future of Irish Steel is a big issue in Cork, which has been hard hit by job losses. Its shipyards are running out of orders, and its Dunlop and Ford plants have closed.

In two by-elections in Cork in November, all the political parties promised to help the plant.

The rescue plan's success depends on new government investment, and the sale of a strategic stake to a new private sector partner. The company is in talks with Riva of Italy and North Star, the US steelmaker.

# Deng associate is arrested

Continued from Page 1

for Li Ka-shing, Hong Kong's richest man, whose Cheung Kong (Holdings) was a shareholder in Shougang in Hong Kong and a business partner on the Chinese mainland.

Capital Iron and Steel and Cheung Kong had been looking into the possible construction of a giant new steelmaking facility in Shandong province, south of Beijing, among other ventures.

Mr Li said: "As a friend of Zhou, I feel sorry to hear that he has been arrested." He added that he had learned Mr Zhou's alleged economic crimes had nothing to do with Cheung Kong.

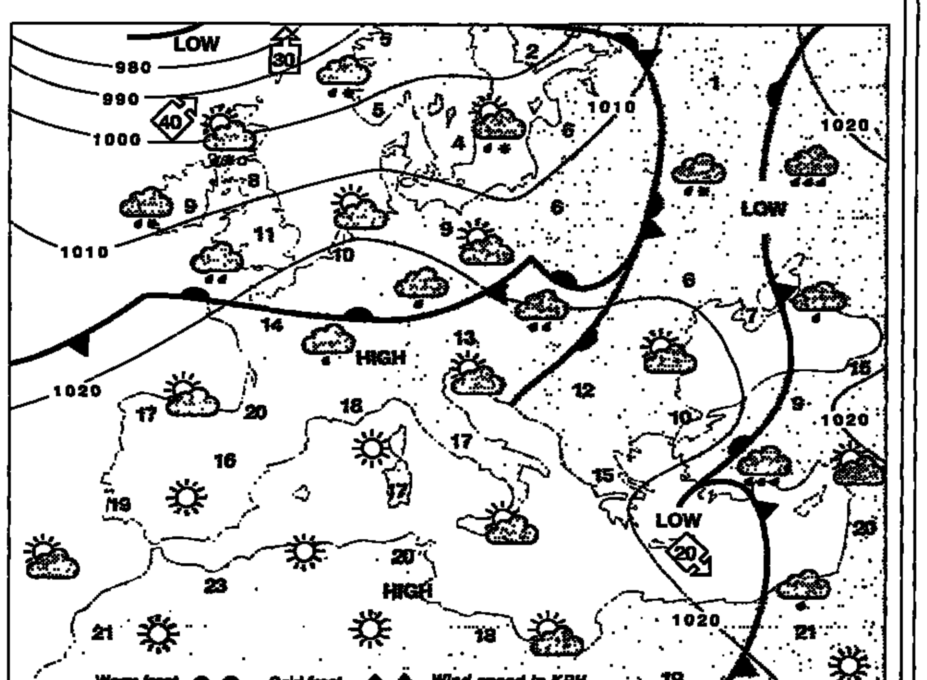
## FT WEATHER GUIDE

### Europe today

Extensive low pressure will remain over the north Atlantic, channeling cool and unstable air into North Sea countries, Scandinavia and the Baltic states. The Scottish and Norwegian coasts will have frequent wintry showers. A wavering front from the Azores to central Europe will trigger rain or drizzle from Brittany to Bavaria. Patchy rain is expected over the Czech Republic, Slovakia and southern Poland. Rain will mix with sleet over western Russia. High pressure over the western Mediterranean will promote light winds, blue skies and springlike temperatures from Portugal to Italy. A small depression near Izmir will produce rain or showers across western Turkey, Crimea and the east of the Ukraine.

### Five-day forecast

The British Isles, Scandinavia and much of western and northern Russia will continue very unsettled and windy. Throughout the week, a lot of rain is expected over the UK, south-west Norway and Denmark. High pressure over the Mediterranean will give sun and comfortable afternoon temperatures.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

**TODAY'S TEMPERATURES**

| | | Maximum Celsius |
|---|---|---|
| Abu Dhabi | fair | 25 |
| Accra | fair | 31 |
| Algiers | fair | 21 |
| Amsterdam | fair | 10 |
| Athens | cloudy | 13 |
| Atlanta | fair | 9 |
| B. Aires | sun | 33 |
| B.ham | cloudy | 17 |
| Bangkok | fair | 34 |
| Barcelona | sun | 16 |

| | | |
|---|---|---|
| Beijing | fair | 6 |
| Belfast | shower | 7 |
| Belgrade | fair | 13 |
| Berlin | shower | 10 |
| Bermuda | fair | 23 |
| Bogota | fair | 24 |
| Bombay | sun | 32 |
| Brussels | cloudy | 11 |
| Budapest | cloudy | 11 |
| C.hagen | shower | 8 |
| Cairo | sun | 20 |
| Cape Town | sun | 29 |

| | | |
|---|---|---|
| Caracas | fair | 28 |
| Cardiff | rain | 11 |
| Casablanca | sun | 21 |
| Chicago | fair | 8 |
| Cologne | fair | 11 |
| Dakar | sun | 25 |
| Dallas | sun | 23 |
| Delhi | sun | 25 |
| Dubai | fair | 28 |
| Dublin | cloudy | 9 |
| Dubrovnik | sun | 16 |
| Edinburgh | shower | 7 |

| | | |
|---|---|---|
| Faro | sun | 20 |
| Frankfurt | cloudy | 12 |
| Geneva | cloudy | 13 |
| Gibraltar | sun | 18 |
| Glasgow | hail | 8 |
| Hamburg | fair | 6 |
| Helsinki | cloudy | 3 |
| Hong Kong | fair | 18 |
| Honolulu | fair | 27 |
| Istanbul | shower | 10 |
| Jakarta | thund | 30 |
| Jersey | rain | 12 |
| Karachi | sun | 30 |
| Kuwait | fair | 19 |
| L. Angeles | sun | 29 |
| Las Palmas | sun | 22 |
| Lima | cloudy | 30 |
| Lisbon | sun | 18 |
| London | drzzl | 11 |
| Lux.bourg | cloudy | 10 |
| Lyon | fair | 15 |
| Madeira | fair | 18 |

| | | |
|---|---|---|
| Madrid | sun | 18 |
| Majorca | sun | 18 |
| Malta | sun | 17 |
| Manchester | shower | 10 |
| Manila | fair | 31 |
| Melbourne | fair | 25 |
| Mexico City | sun | 25 |
| Miami | thund | 24 |
| Milan | sun | 16 |
| Montreal | snow | -2 |
| Moscow | fair | 1 |
| Munich | drzzl | 13 |
| Nairobi | fair | 28 |
| Naples | fair | 17 |
| Nassau | cloudy | 27 |
| New York | cloudy | 8 |
| Nice | sun | 16 |
| Nicosia | fair | 18 |
| Oslo | shower | 3 |
| Paris | drzzl | 14 |
| Perth | fair | 38 |
| Prague | rain | 11 |

| | | |
|---|---|---|
| Rangoon | sun | 31 |
| Reykjavik | cloudy | 2 |
| Rio | rain | 29 |
| Rome | sun | 17 |
| S. Frsco | sun | 18 |
| Seoul | sun | 5 |
| Singapore | shower | 31 |
| Stockholm | fair | 4 |
| Strasbourg | cloudy | 14 |
| Sydney | fair | 22 |
| Tangier | sun | 21 |
| Tel Aviv | sun | 20 |
| Tokyo | fair | 10 |
| Toronto | fair | 2 |
| Vancouver | rain | 13 |
| Venice | fair | 12 |
| Vienna | cloudy | 14 |
| Warsaw | rain | 9 |
| Washington | rain | 15 |
| Wellington | rain | 16 |
| Winnipeg | fair | -6 |
| Zurich | cloudy | 12 |





هكذا من الاصل

FINANCIAL TIMES
# COMPANIES & MARKETS





Monday February 20 1995

## MARKETS THIS WEEK

**TONY JACKSON:**
GLOBAL INVESTOR
Last week was a good one for those who believe inflation is no longer a problem. According to the Organisation for Economic Co-operation and Development, inflation among its members last year was 2.4 per cent, the lowest since OECD records began. Page 20

**MARTIN WOLF:**
ECONOMIC EYE
Kenneth Clarke has said that it is quite possible to have European monetary union without political union. Chancellor Helmut Kohl and Norman Lamont disagree. Which side is right? The answer is that both are: Mr Clarke in theory, but Mr Kohl in practice. Page 20

**BONDS:**
Volatility in European government bond markets and the increasing profile that European monetary union has assumed in European politics has turned the spotlight on the Ecu market. Page 22

**EQUITIES:**
New York – US investors are likely to hang on every word of Mr Alan Greenspan as the chairman of the Federal Reserve discusses monetary policy objectives before a Congressional panel. London – UK equities are unlikely to settle down again until international problems such as the falling US dollar are sorted out. Page 21

**EMERGING MARKETS:**
Hungary's Socialist-led government will have gone a long way towards restoring international confidence in its commitment to reform and foreign investment if its nominations for the vacant posts of finance minister and central bank governor are formally approved by parliament this week. Page 21

**CURRENCIES:**
Currency markets look set for a lively week, albeit with a possible delay until US markets return from the President's day holiday. Page 21

**COMMODITIES:**
All is not well in the European Union dairy market. This was signalled last week when a 2 per cent reduction in the quota for milk and dairy products was announced. Page 20

**UK COMPANIES:**
Pilkington, the world's biggest glass maker, will today announce the appointment of a new chairman – the first to come from outside the family in the company's 170-year history. Page 18

**INTERNATIONAL COMPANIES:**
Banco Santander, Spain's biggest banking group, plans a Pta50bn ($385m) convertible bond issue as part of a growth strategy that includes increased control over its subsidiary Banco Español de Crédito (Banesto). Page 19

**STATISTICS**



# New targets for Crédit Lyonnais

By Andrew Jack in Paris

Crédit Lyonnais, the loss-making state-controlled bank, is likely to have to meet tight new financial targets as part of a restructuring plan at an advanced stage of negotiation with the French government.

It has emerged that new losses on loans made by the bank to the depressed property sector have already exceeded the FFr18.4bn ($3.5bn) guarantee provided by the French government last year to OIG, a special vehicle hived off to contain FFr42bn of Crédit Lyonnais' doubtful loan portfolio.

Senior officials and bank executives are finalising details of a rescue package which is likely to be unveiled in the next few days, ahead of its full 1994 results which are expected to be released in late March.

The extent of the bank's financial troubles emerged last year when it reported losses of FFr6.9bn for 1993 and FFr23.3bn in new capital and guarantees from the state. It reported continued losses of FFr4.5bn for the first half of 1994.

The new, comprehensive package for Crédit Lyonnais is expected to include several tens of billions of francs in additional guarantees from the state designed to keep the bank above internationally-agreed solvency ratios.

Under the restructuring, the bank is likely to have to meet a series of well-defined performance objectives related to profitability and cost-cutting. These objectives are designed partly to respond to frustrations about the bank's performance, which private French commercial banks have voiced during the last few months.

Banking groups, such as Société Générale, have argued that the bank has shown little willingness to reduce operations such as an extensive European retail network which threaten their competitive position, while receiving state support to stave off continued losses.

The restructuring is likely to include a substantial increased commitment for total sales of assets across the range of the bank's operations, although there may be little immediate sign of any acceleration given the destructive effect on their sale value this might create in the current tough economic climate.

Details of the exact size of the state rescue are still being agreed, although those closest to the discussions have been keen to stress an agreement focused around the "spirit" of a new strategy that will make the bank self-supporting in the future rather than one centred around exact financial sums.

Officials in Brussels are scrutinising the competition implications of any additional state-backed rescue. French officials are in contact with their counterparts at the European Commission in Brussels, where Mr Karel Van Miert, the competition commissioner, has asked to be kept informed about the restructuring. He has also asked a committee of three heads of central banks to examine the policy implications of bank rescues.

# Saatchi reveals its heart with new title

By Diane Summers and William Lewis in London

Saatchi & Saatchi, the advertising group famed for its recent internal hostilities, is hoping to herald a new era of love and peace by changing its name to Cordiant plc.

The proposed name change, contained in a circular Saatchi shareholders are due to receive today, is supposed to express "the new spirit within the company, characterised by accord and shared purpose", said the group.

The circular also contains details of a new executive share options scheme. Both issues will be put to shareholders at an extraordinary general meeting on March 16.

The main purpose of the name change is to distance the holding company from the subsidiary Saatchi & Saatchi advertising network, which will retain its name. The new group name will also "mark a clear change in leadership", said the company.

Cordiant was thought up by the US-based corporate identity company, Siegel & Gale, which is also a Saatchi subsidiary. Derived from the Latin for heart, Saatchi said the name "expresses a core or heart position" that the holding company has "at the centre of one of the world's leading communications groups".

Mr Maurice Saatchi, who was ousted as chairman before Christmas, was strongly opposed to any name change. This issue, together with a proposed share options package that could have netted him £5m, was largely behind the shareholder revolt which led to his downfall.

The company said that performance-related pay and incentives will make up a larger proportion of remuneration packages than has been the case in the past.

Between 500-700 executives in the operating companies will be able to participate in a "phantom" share plan, with ultimate values of the phantom shares depending on the performance of the individual companies.

Payouts will be over four years, starting three years after the shares have been granted.

A small number of senior executives, mainly employed by the holding company, will be able to take part in a new performance option scheme designed to be in line with institutional shareholder guidelines.

## Over-capacity, price pressure and intense competition have fuelled a potato crisp war

# Dalgety picks an interesting time to sell Golden Wonder

By Roderick Oram

The recent history of the UK potato crisps market, the battleground of multinational companies such as Pepsico, Procter & Gamble and United Biscuits, is a cautionary tale for anybody making and selling food anywhere.

When the price of a six-pack of crisps hit 29p last year, falling nearly two-thirds from its long standing price of 85p, it was a sure sign that the tension between maker and retailer, own-label and branded products was at all time-high.

Some painful restructuring of companies followed. The market has also divided sharply between commodity own-label products with about 35 per cent, standard brands with 45 to 50 per cent and premium with 15 to 20 per cent.

Every crisp maker claims it has a viable strategy. But there is not enough room for all of them given continuing over-capacity and pressure on prices and profits. PepsiCo and United Biscuits, each with about 23 per cent of Europe's crisp and savoury snack market, are best placed to exploit the opportunities but smaller players can harass them.

What happens next hinges largely on Dalgety. Deciding to seek its fortune in pet foods, it has put its Golden Wonder crisp and snack business up for sale. If the buyer is an existing player such as UB, further consolidation will take place. But if a wealthy new player buys then further mayhem may follow.

"We're an obvious candidate," says Mr David Hearn, chief executive of UB Snackfoods Europe. "But I'm not sure that what we need to meet our crisp ambitions is more capacity." Adds a colleague: "We're not particularly interested... but everything has a price." Given the industry's continuing problems and Golden Wonder's particular ones, Dalgety will be lucky to get more than £250m ($395.6m), or once times annual sales, estimates Mr Tim Potter, food analyst at Smith New Court.

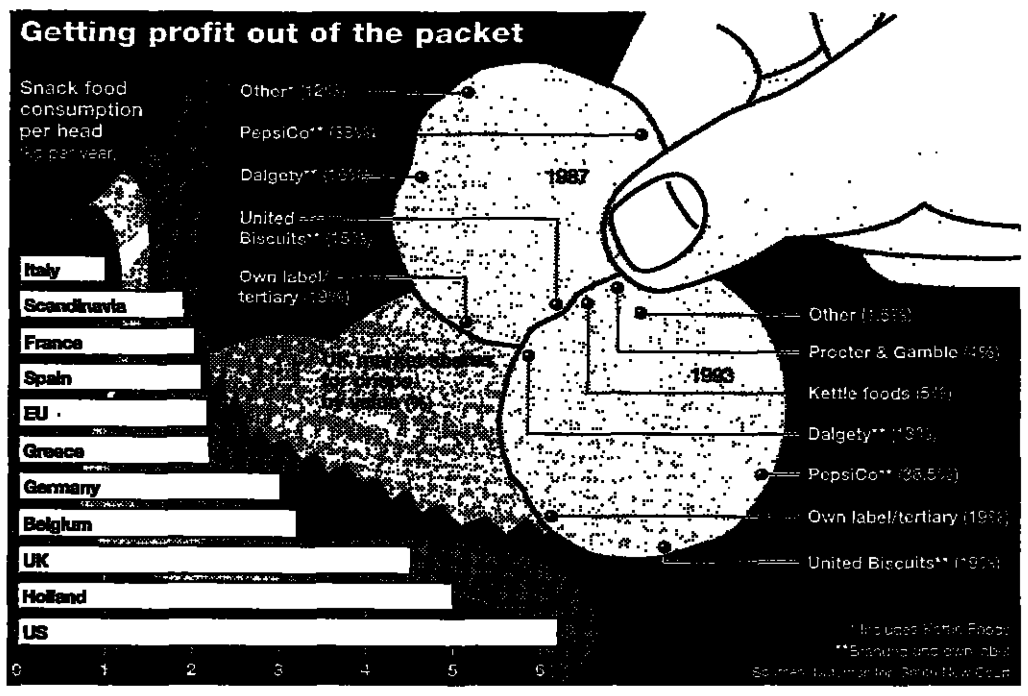
The problems of Dalgety and other crisp makers began to build in 1993 as three developments disrupted the market.

First, PepsiCo, the world's largest snacks maker, pulled together Walkers and Smiths crisps and began to flex its muscles.

Second, supermarket chains and food discounters were spoiling for a fight. "When supermarkets' food volumes faltered after more than 10 year of unfettered growth, their instinctive response was to slash prices," says one senior crisp executive.

Third, Bensons Crisps and The Snack Factory, two own-label makers, each built a large ultra-efficient plant at a combined cost of more than £30m.

"We make no apologies about taking advantage of excess capacity to give our customers value," a senior supermarket executive says. Trouble was, the retail chains chased each other lower until they could only offer unrealistically low prices by cannibalising their own margins.




"Supermarkets didn't sell much more volume but they took out a large chunk of their margins and ours," the crisp executive says. "We're now seeing a more rational response from them." Both retail and wholesale prices have risen since late last year but not enough to counter the higher costs of potatoes, cooking oil and packaging.

The moves have not been without cost. Bensons recently closed its Welsh plant to concentrate on its new complex in Lancashire. It also tapped shareholders for £4.6m to invest further in its plant and repair its balance sheet after losing £6.7m on sales of £35.7m last year.

"We built our crisp volume by 18 per cent last year but the value by only 9½ per cent," says Mr Malcolm Jones, Bensons' managing director. "At that rate you become busy fools." Bensons' capacity is now some 40 per cent higher than pre-expansion. While it is aimed heavily at own-label, Bensons is also trying to move into higher value items such as tortilla chips.

UB plays both ends of the market. It makes more than half the own-label crisps in the UK but has had to close a large plant in Grimsby to keep up with the low-cost producers. It also has some 45 per cent of the premium sector with recently developed brands such as Brannigans and McCoy's and Phileas Fogg.

"We decided that the commodity end is never going to be hugely profitable," says Mr Hearn of UB, "but upmarket is." Its goal is to build both businesses and virtually ignore the standard market in the middle.

Golden Wonder has increasingly lost this ground to the newly invigorated Walkers.

Because of its impending sale, Golden Wonder declined to speak for itself. "One of Golden Wonder's problems has been its inability to migrate the business out of the centre ground when it felt the heat of Walker's expansion," one competitor says. It had neither the resources to match Walkers or brand strength to move upmarket while it was squeezed at the commodity end. It has about 20 per cent of the own-label market but despite closing its Scunthorpe plant still faces efficient competitors in an industry with over-capacity of 10-15 per cent.

For Golden Wonder, its change of ownership looks like a case of jumping out of the chip pan and into the fire.

## This week: Company news

SCANDINAVIAN COMPANIES

### Banking on strong profits growth all-round

Norwegian industrial giant Norsk Hydro kicks off the week today by reporting stronger full-year results for 1994, followed tomorrow by Christiania Bank, Norway's second largest commercial bank, and branded consumer goods group Orkla on Wednesday.

Norsk Hydro is forecast to report pre-tax profits of between NKr6.4bn-NKr7bn ($955m-$1.04bn) and earnings per share of NKr19.5, sharply up from NKr14.6 in 1993.

The 1993 result was heavily influenced by a NKr2.53bn pre-tax gain on the disposal of the group's 38.3 per cent stake in Freia Marabou, the Norwegian chocolate producer. But 1994 figures will reflect higher non-oil commodity prices and a lower cost base.

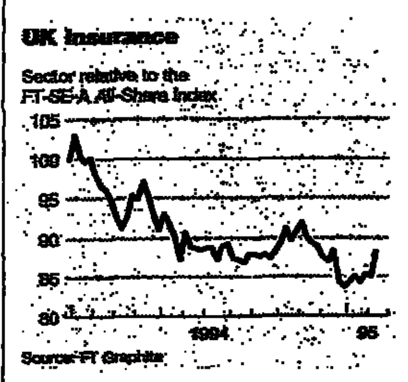
Christiania Bank will announce sharply higher pre-tax profits helped by reversals of provisions previously made for loan losses. The bank is also expected to reignite the dividend row between the state and commercial banks when it defies demands for a payout ratio of 50 per cent of net profits.

Orkla is also expected to unveil higher pre-tax profits at NKr1.45bn against NKr1.32bn in 1993.

Astra, Sweden's fast-growing pharmaceuticals group, is expected to report another year of strong profits growth when it presents its 1994 figures on Wednesday.

Analysts expectations range widely, but the average forecast is for profits of SKr9.7bn ($1.3bn), up 24 per cent from 1993, and an increase in the dividend to about SKr2.00 from last year's SKr1.60.

The performance will again be driven by booming sales of Losec, the group's blockbusting anti-ulcer drug and the second best selling drug worldwide.




UK INSURERS

### Peak may be prelude to tougher trading

UK composite insurance companies are expected this week to mark a peak in the notoriously volatile underwriting cycle by posting record profits for 1994 – but indicating tougher trading conditions ahead.

Royal Insurance and Guardian Royal Exchange kick-off the insurers' annual results season. Royal is expected to report pre-tax profits of about £400m ($620m), up from £143m in 1993. GRE's results, excluding investment gains or losses, are expected to show a pre-tax figure of about £280m against £183m.

But the figures will reflect the rises in premium rates and favourable claims record of the past few years, rather than the softer rates which are already apparent. Competition from telephone-based insurers has led to reductions of up to 10 per-cent for motor policies.

Rates for other household insurance lines are also falling and there are signs that commercial insurance policies may not have been far behind. Profits for all UK composite insurers are seen as remaining broadly flat or dipping in 1995.

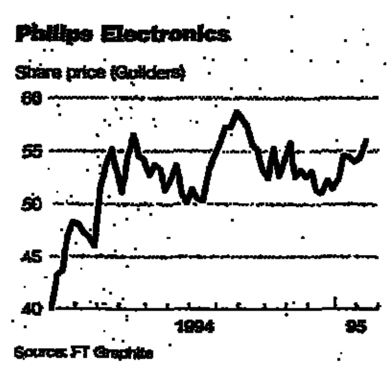
Including investment losses, GRE's results tomorrow will show a loss of about £70m. The group is unique among the UK composites in presenting results this way. Royal's results on Thursday will shows the extent to which the group's own direct writing operations have helped it retain market share in personal lines.

OTHER COMPANIES

### Philips set to double dividend pay-out

Philips, the Dutch electronics group, is expected to more than double its annual dividend when it releases its 1994 results on Wednesday. Analysts are forecasting that the company will boost its pay-out to either Fl 1.25 ($0.75) or Fl 1.50 per share, reflecting sharply better results and continued good prospects for 1995 and 1996. At this level, Philips' 1994 dividend would be more than twice as high as the Fl 0.50 it paid on 1993 results, when it managed to resume payments to shareholders after a four-year gap. Analysts expect that net profit before extraordinary items will show a strong rise to around Fl 1.8bn-Fl 2bn ($1.03bn - $1.15bn) for 1994 compared with Fl 856m in 1993, due mainly to its booming business in semi-conductors and a turnaround in consumer electronics. The company itself has already said that 1994 sales rose to around Fl 61bn, a 3.7 per cent improvement on the Fl 58.8bn in sales generated the year before.

■ SmithKline Beecham: The UK-based pharmaceuticals group has failed to reach the year-end debt and gearing levels it promised to make last year. The company will reveal in its annual results on Thursday that the $1.45bn (£930m) sale of the animal health division was completed too late to be included in 1994's results. One analyst estimated that this would leave it with net debt of £2.6bn, corresponding to gearing of 300 per cent. It had promised 120 per cent. The results will also be complicated by a restructuring provision. This will leave the headline pre-tax profit for 1994 at about £735m, against £1.22bn last year, assuming a £500m restructuring charge, according to stockbroker UBS.




■ Union Bank of Switzerland: The bank kicks off the Swiss banking results season on Friday, and analysts have been nudging down their forecasts following disappointing reports from lesser banks and cautious statements by leading bankers. UBS has admitted that net income will be lower than the exceptional SFr2.27bn ($1.75bn) earned in 1993. It has also promised to reveal details of purchases of its own shares made during the proxy battle leading up to last November's shareholders' meeting, and the losses suffered on them. This may provide fresh fuel for the epic legal battle raging between the UBS board and BK Vision, the bank's largest shareholder.

**Companies in this issue**

# Nigel Rudd to become Pilkington chairman

By Peter John

Pilkington, the world's biggest glass maker, will today announce the appointment of a new chairman – the first to come from outside the family in the company's 170-year history.

The board will issue a statement confirming earlier speculation that Mr Nigel Rudd, the founder of acquisitive conglomerate Williams Holdings, will replace Sir Antony Pilkington who is to retire after the annual meeting on July 20.

It will be a non-executive position, with Mr Roger Leverton, the current chief executive, maintaining day-to-day executive control. Salary is expected to be a pro-rata equivalent of Sir Antony's package which, last June, stood at £445,630 including a £96,000 performance bonus.

Mr Rudd, 48, joined Pilkington as a non-executive director in August and is already the non-executive chairman of East Midlands Electricity.

His appointment will mark another stage in a fast-moving career that began 13 years ago when, operating from an office above a garage, he and his partner, Mr Brian McGowan, bought a majority stake in what Mr Rudd has described as an "awful little company losing money" for £400,000.

Also, his move will come at a time when the glass company appears to be demonstrating a more polished strategy.

Interim figures announced in November were above most analysts' forecasts; Pilkington cut costs by £42m in the period and boosted profits in its main markets.

The appointment is a radical and emotional change for the glass maker. There have been Pilkingtons at Pilkington since they got together with the Greenall brewing family to found the St Helen's Crown Glass company in 1826.

# TSB chief has pay cut by 14.5%

By William Lewis

Mr Peter Ellwood, chief executive of TSB Group, the UK's sixth largest bank, was paid £442,023 in the year to October 31 1994, a decrease of 14.5 per cent on the year before.

However, directors' emoluments increased in total by £411,000 to £2.4m, the bank's annual report and accounts revealed. Last month TSB announced that pre-tax profits had increased by 87 per cent to £504m, driven largely by a fall in provisions for bad debts.

With effect from January 1 1994 Sir Nicholas Goodison, chairman, had his basic salary increased from £215,000 to £260,000.

Sir Nicholas last received an increase in basic pay in 1991 and "no further adjustment will be made until January 1996 at the earliest". Sir Nicholas's total pay increased by £48,858, or 17.8 per cent, to £322,928 last year.

A £2.6m fund is to be established to cover pension obligations for key executives who joined the bank after June 1989 and are subject to the Inland Revenue earnings cap.

Pension entitlements above the cap cannot be covered by the TSB Group Pension Scheme so the bank is to set up a new fund financed from existing provisions.

The amount "attributable" in the new fund to Sir Nicholas is £690,000, including £153,000 for the year ended October 31 1994.

Mr Hugh Freedberg, Hill Samuel's chief executive, earned £595,501 last year making him the highest paid TSB director. That included a £356,875 bonus, partly based on Hill Samuel's performance over the past two years.

# Argyll shows 'encouraging' third quarter

By Neil Buckley

Argyll, the UK's third largest food retailing group, revealed an encouraging performance in its third quarter, with like-for-like sales in its core Safeway chain up 1.4 per cent.

Total sales for Safeway in the 17 weeks to February 11 increased by 9 per cent. The Christmas trading period was particularly strong, with like-for-like sales up 4 per cent in the four weeks to December 31.

Mr David Webster, deputy chairman, attributed the sales rise partly to a new marketing strategy introduced after a strategic review of the business.

This included a range of cheap basic goods called 'Safeway Savers' – on more than 100 products – a campaign called 'Price Watch', in which Safeway guaranteed to match or beat competitors' prices for up to 400 of the most popular products, and a new television advertising campaign.

Safeway said price reductions meant that gross margins for the second half-year were "a little below" the year before. But the effect had been partially offset by productivity improvements.

The shares slipped ¼p to 273p last Friday.

# Celsis alliance expected with Nova

By Tim Burt

Celsis, the biotechnology company, is today expected to announce a strategic alliance with Nova Biomedical, the US diagnostic equipment manufacturer, which could double the UK group's turnover within a year.

The Cambridge-based company, which develops laboratory testing equipment, believes the deal will transform it from a research group into a sales-driven operation.

Announcement of the deal could partially restore confidence in the biotechnology sector, which took a knock at the end of last week after British Biotech, one of the industry's leading companies, said it had suspended trials of one of its most promising new drugs.

Although Celsis already supplies testing equipment to companies such as Wellcome, Procter & Gamble and Colgate Palmolive, the alliance with Nova is the first to promise international distribution of its products.

Under the agreement, Nova will manufacture Celsis' "Scan 500" system, which uses video-sensing technology to conduct rapid microbiological tests.

It is the first tie-up announced by the UK group since it appointed Mr Arthur Holden as chief executive to replace Mr Tony Martin, who was sacked last year on the grounds that he was "ineffectual".

Celsis predicted the alliance would enable it to move faster towards break-even. In the six months to September 30, the deficit rose from £561,000 to £2.23m.

# Northern queries value of Trafalgar offer

Northern Electric will today argue that the current Trafalgar House offer does not value the company properly, writes Peter John.

The regional electricity company will follow up its surprise £5.07p a share incentive package with an aggressive statement that provides the figures and allows shareholders to draw their own conclusions.

The logic is that, once the loyalty payment is stripped out, the share price would have to rise to some £14 before it reflected an average dividend yield for the sector.

Northern is hoping to capitalise on its shareholder offer, and its claims that it will be able to raise its dividend sharply, ahead of any attempt by Trafalgar to raise its current £10.48 a share offer before the deadline on Friday.

# A ticking political time-bomb

## Haig Simonian examines South West Water's twin problems of high charges and under-investment

For decades, bathers off Britain's most popular beaches in Devon and Cornwall have been aware of the less salubrious objects floating alongside them.

Although the country's drinking water is among the world's best, its reputation for sewage treatment, particularly in coastal areas, is unenviable, with the problem of raw sewage outflows to sea worst in the south west.

The regional water and sewerage group, South West Water, has only 3 per cent of the customers in England and Wales, but is responsible for a third of the bathing water because of its long coastlines.

Local sewage treatment was traditionally poorer than elsewhere because of under-investment and lax management, critics say. Even drinking water provision was below par, with summer stand-pipes.

Privatisation should have changed that. The company received £266m from the government to boost capital spending, and a commitment to big tariff rises to finance investment.

Tariffs are now about 50 per cent above the average for England and Wales, and Mr Matthew Taylor, the Liberal Democrat MP for Truro, says some pensioners are paying up to 10 per cent of their income in charges.

The company argued high prices reflected its £2bn capital programme for 1990-2000, partly to rectify former under-spending and partly dictated by Brussels.

But the political landscape has changed since 1989.

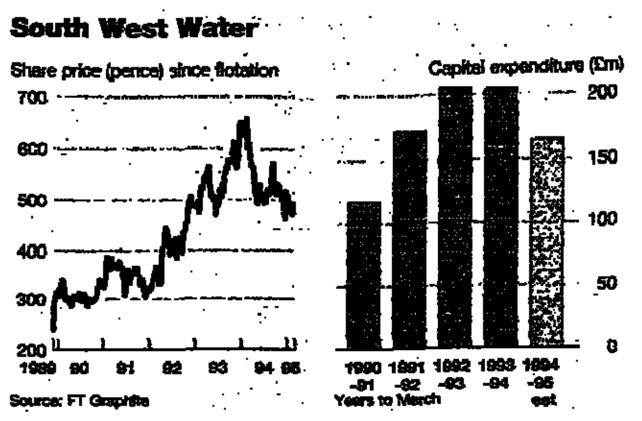
Charges have become a political time-bomb in an area of relatively low earnings, high unemployment and abundant retirees. Formerly safe Conservative seats have become marginals because of the government's unpopularity and local anger over water prices.

Hence the background to the discussions due this week between the company and the National Rivers Authority, regulator for enforcing bathing water standards.

Earlier this month, the NRA said it was reconsidering the previous view that spending at a handful of beaches, notably Torbay and Falmouth, could be put off. The deferral was controversial.

Locals claimed the NRA had bowed to pressure from the Department of the Environment to exempt the beaches to reduce South West Water's investment needs. Precisely how much South West Water would have had to spend, how much it "saved" through the NRA's alleged acquiescence and how much it will now have to cough up remain fuzzy.

Whatever the truth, South West Water is using the NRA's move as ammunition in its appeal to the Monopolies and Mergers Commission over the price caps imposed by the water regulator at last year's periodic review. Mr Ian Byatt, the regulator, said South West Water could only raise prices in the next five years by a real 1.5 per cent in the first year and 1 per cent thereafter. He halved its planned £1bn spending for 1995-2000 and claimed it could release further resources through higher productivity.




South West Water complained to the MMC that the rises were inadequate.

Analysts agree the company has had a raw deal, but say it was naive to ignore the changed political climate.

Spending plans set in 1990 look too ambitious today. And political sensitivity over tariffs means it was short-sighted to trust "indications" that Mr Byatt would approve big real price increases. Many analysts now reckon the MMC will up Mr Byatt's ceilings, but by less than the company wants. Even real increases of 2.5 to 3 per cent would be a disappointment. Better productivity will provide some leeway, but South West Water has already made 550 redundancies.

So the most likely outcome is a fudge, with a mixture of slightly higher charges, postponed investments and cost cuts.

The MMC should report by late March. Given the political sensitivities, its report will have ripples well beyond south west England.

# Stanhope shares resume trading

By Simon London

Shares in Stanhope resumed trading at 3p on Friday following publication of British Land's detailed offer for the property developer. The shares were suspended at 8p on December 22 pending clarification of Stanhope's financial position.

British Land is offering 3p a share in cash or a share alternative, worth 2.7p at close of business last Wednesday. Its offer has been accepted unconditionally by Stanhope's directors. British Land now has acceptances in respect of 66.3 per cent of the issued share capital. The closing date for acceptances is March 9.

## CROSS BORDER M&A DEALS

| BIDDER/INVESTOR | TARGET | SECTOR | VALUE | COMMENT |
|---|---|---|---|---|
| Softbank (Japan) | Interface Group (US) | Business services | £516m | Software exhibition move |
| Pearson (UK) | Television Broadcasts (HK) | Broadcasting | £107m | Asian stake at last |
| Investor group (Intl) | Unit of Goodman Fielder (Australia) | Food & distribution | £83m | Offer for Singpore's GFA |
| Coloplast (Denmark) | Sween Corp (US) | Healthcare | £50m | Share issue to finance |
| Socfinal-Koffy (Luxembourg/Ivory Coast) | Caoutchoucs de Grand-Bereby (Ivory Coast) | Rubber | £13m | Plantation privatisation |
| Komatsu (Japan)/ Changzhou Forestry (China) | JV | Construction equipment | £13m | Sumitomo/Itoh also involved |
| Swissair (Switzerland) | M S McLeod (Australia) | Retailing | £12.2m | Rival duty-free bid |
| Chemfab Corp (US) | Tygaflor (US) | Fabrics | £9.7m | Courtaulds sales continue |
| Scotia Holdings (UK) | Lipid Teknik (Sweden) | Biotechnology | £7m | Buy from Karlshamns |
| CRH (Ireland) | HGP Industries (US) | Building materials | £2.25m | Taking full control |





Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

| 1/2 hour period ending | Provisional Price for Trading on 19.02.95: Pool purchase price £/MWh | Final Prices for Trading on 22.01.95: Pool purchase price £/MWh | Final Prices for Trading on 22.01.95: Pool selling price £/MWh |
|---|---|---|---|
| 0030 | 9.06 | 9.90 | 9.90 |
| 0100 | 14.59 | 19.91 | 21.28 |
| 0130 | 14.69 | 29.94 | 31.31 |
| 0200 | 14.59 | 29.94 | 31.31 |
| 0230 | 10.04 | 19.91 | 21.28 |
| 0300 | 9.82 | 11.29 | 12.66 |
| 0330 | 9.75 | 11.29 | 12.66 |
| 0400 | 9.33 | 10.03 | 10.03 |
| 0430 | 8.03 | 9.85 | 9.85 |
| 0500 | 8.83 | 9.70 | 9.70 |
| 0530 | 8.79 | 9.50 | 9.60 |
| 0600 | 8.79 | 9.45 | 9.45 |
| 0630 | 8.79 | 9.45 | 9.45 |
| 0700 | 8.78 | 9.45 | 9.45 |
| 0730 | 8.78 | 9.35 | 9.35 |
| 0800 | 8.76 | 8.54 | 8.54 |
| 0830 | 8.75 | 8.50 | 8.50 |
| 0900 | 8.75 | 8.51 | 8.51 |
| 0930 | 8.79 | 9.35 | 9.35 |
| 1000 | 9.38 | 9.65 | 9.65 |
| 1030 | 9.38 | 12.09 | 13.46 |
| 1100 | 9.38 | 12.09 | 13.46 |
| 1130 | 9.38 | 12.09 | 13.46 |
| 1200 | 9.38 | 19.31 | 20.69 |
| 1230 | 9.38 | 19.31 | 20.69 |
| 1300 | 9.38 | 19.31 | 20.69 |
| 1330 | 9.38 | 19.31 | 20.69 |
| 1400 | 9.38 | 12.09 | 13.46 |
| 1430 | 9.00 | 12.09 | 13.46 |
| 1500 | 8.82 | 9.75 | 9.75 |
| 1530 | 8.80 | 9.70 | 9.70 |
| 1600 | 8.80 | 9.70 | 9.70 |
| 1630 | 8.80 | 9.70 | 9.70 |
| 1700 | 8.83 | 12.13 | 13.51 |
| 1730 | 9.38 | 44.37 | 45.76 |
| 1800 | 9.71 | 44.39 | 45.77 |
| 1830 | 13.13 | 42.12 | 43.50 |
| 1900 | 13.13 | 42.09 | 43.46 |
| 1930 | 13.13 | 23.84 | 25.21 |
| 2000 | 11.02 | 18.46 | 19.82 |
| 2030 | 9.91 | 13.98 | 15.35 |
| 2100 | 9.91 | 12.09 | 13.46 |
| 2130 | 9.91 | 12.09 | 13.46 |
| 2200 | 9.91 | 12.09 | 13.46 |
| 2230 | 9.91 | 9.70 | 9.70 |
| 2300 | 8.83 | 9.65 | 9.65 |
| 2330 | 8.80 | 9.62 | 9.52 |
| 2400 | 8.79 | 9.61 | 9.51 |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.



Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

| 1/2 hour period ending | Provisional Price for Trading on 20.02.95: Pool purchase price £/MWh | Final Prices for Trading on 23.01.95: Pool purchase price £/MWh | Final Prices for Trading on 23.01.95: Pool selling price £/MWh |
|---|---|---|---|
| 0030 | 8.86 | 9.75 | 9.75 |
| 0100 | 9.91 | 9.52 | 11.02 |
| 0130 | 9.91 | 9.52 | 11.02 |
| 0200 | 9.91 | 9.52 | 11.02 |
| 0230 | 9.70 | 9.52 | 11.02 |
| 0300 | 9.70 | 9.52 | 11.02 |
| 0330 | 9.70 | 9.52 | 11.02 |
| 0400 | 9.44 | 9.52 | 11.02 |
| 0430 | 9.38 | 9.52 | 11.02 |
| 0500 | 8.80 | 9.70 | 9.70 |
| 0530 | 8.80 | 9.45 | 9.45 |
| 0600 | 8.79 | 9.50 | 8.50 |
| 0630 | 8.80 | 9.51 | 9.51 |
| 0700 | 8.03 | 9.67 | 9.67 |
| 0730 | 8.03 | 25.47 | 27.10 |
| 0800 | 8.04 | 28.27 | 32.09 |
| 0830 | 10.23 | 39.38 | 43.14 |
| 0900 | 11.10 | 45.73 | 50.89 |
| 0930 | 11.56 | 62.95 | 69.19 |
| 1000 | 12.30 | 66.71 | 73.67 |
| 1030 | 12.38 | 67.62 | 74.77 |
| 1100 | 12.18 | 111.33 | 118.23 |
| 1130 | 12.09 | 112.55 | 119.74 |
| 1200 | 12.06 | 59.43 | 67.07 |
| 1230 | 11.76 | 57.84 | 64.86 |
| 1300 | 11.30 | 50.61 | 56.89 |
| 1330 | 10.91 | 42.75 | 47.30 |
| 1400 | 10.79 | 39.72 | 43.62 |
| 1430 | 10.75 | 37.83 | 41.32 |
| 1500 | 9.14 | 37.19 | 40.80 |
| 1530 | 9.13 | 39.62 | 43.65 |
| 1600 | 9.47 | 61.44 | 72.34 |
| 1630 | 12.37 | 211.05 | 253.94 |
| 1700 | 18.33 | 493.27 | 584.71 |
| 1730 | 36.20 | 633.00 | 724.66 |
| 1800 | 58.21 | 573.39 | 655.72 |
| 1830 | 62.20 | 310.64 | 360.69 |
| 1900 | 50.30 | 166.43 | 193.25 |
| 1930 | 28.44 | 86.60 | 102.78 |
| 2000 | 18.53 | 54.75 | 60.97 |
| 2030 | 10.84 | 29.38 | 31.97 |
| 2100 | 10.42 | 28.70 | 28.63 |
| 2130 | 10.35 | 25.23 | 28.85 |
| 2200 | 10.33 | 25.18 | 26.70 |
| 2230 | 9.00 | 23.85 | 25.35 |
| 2300 | 8.85 | 9.59 | 9.59 |
| 2330 | 8.80 | 9.65 | 9.65 |
| 2400 | 8.77 | 9.62 | 9.62 |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.

# Banco Santander plans Pta50bn convertible

By Tom Burns in Santander

Banco Santander, Spain's biggest banking group, plans a Pta50bn ($385m) convertible bond issue as part of a growth strategy that includes increased control over its subsidiary Banco Español de Crédito (Banesto), and further foreign expansion.

Speaking at the group's AGM on Saturday, Mr Emilio Botín, chairman of Banco Santander, highlighted pre-tax profits of Pta124.4bn last year, up 7.5 per cent on 1993. Net income after consolidating Banesto, which was acquired by Santander in April last year, stood at Pta99.8bn.

The bond issue will be aimed exclusively at foreign institutions and is likely to be implemented in the second half of the year. Banesto, under its previous management, had planned a $400m issue which was shelved after its board was ousted by the Bank of Spain in December 1993.

Santander's capitalisation plans reflect the effort it made to buy Banesto and its own ambitions. Santander's shareholder equity has a Bank of International Settlements (BIS) ratio of 10.3 per cent, compared with the 8 per cent minimum but in the past it has been as high as 13 per cent.

Santander paid Pta281bn to acquire 60 per cent of Banesto and has since reduced its equity to 49.6 per cent by placing shares among friendly institutions.

Mr Botín said Santander's shareholding in Banesto should "never fall below 45 per cent", that in the short term he wanted to keep it at 50 per cent, and that he wanted a hard core of allied shareholders to control 70 per cent of Banesto's equity. He said the hard core would build up its Banesto equity "little-by-little".

The acquisition of Banesto, however, has strongly weighted Santander towards domestic business, which now represents 70 per cent of the group's income. Mr Botín now wants to increase foreign activities so earnings from the domestic market and from abroad should be evenly split.

He also wants to split the group's activities evenly between commercial and merchant banking.

# Watchdog resignations put Lisbon under fire

By Peter Wise in Lisbon

Portuguese government officials led by Mr Eduardo Catroga, finance minister, are expected to face tough questioning over the resignation of the country's capital markets supervisory body as they promote privatisation and debt programmes in Europe and the US this week.

The five-man executive board of the Securities and Exchange Commission (CMVM) quit on Friday, alleging the government had damaged the credibility of Portugal's financial markets by undermining their independent supervision.

The dispute threatens to weaken investor confidence in the Portuguese market as the government is preparing its first global offers, including the partial privatisation of Portugal Telecom in May.

The CMVM officials resigned the day after the government authorised Mr António Champalimaud, a Portuguese industrialist, to buy 50 per cent of Banco Totta e Açores (BTA), Portugal's third-largest bank, over-ruling a CMVM decision that he was legally bound to make a bid for 100 per cent.

Mr Fernando Costa Lima, CMVM president, said the decision showed the government did not believe in autonomous supervision of the market. The exemption from a full bid was "contrary to the transparency, integrity, rigour and respect for the law".

But Mr Catroga told the FT shortly before the resignations that the law permitted the government to waive the normal requirement for a full bid because BTA was still in the process of being privatised. The state owns 13 per cent.

Mr Champalimaud's Es153bn ($971m) bid for the 50 per cent of BTA controlled by Banco Español de Crédito (Banesto), the troubled Spanish bank, is politically advantageous because it will return BTA to Portuguese control.

Mr Costa Lima said government errors were responsible for Banesto gaining control of BTA. Legislation limits foreign ownership to 25 per cent.

# Earnings jump at Metsä-Serla

By Christopher Brown-Humes in Stockholm

Metsä-Serla, the Finnish forestry group, more than doubled profits last year to FM788m ($170m) from FM302m.

The performance, in a year when the pulp and paper cycle turned decisively upwards, brought a dividend of FM5, up from FM2, and a forecast of higher profits in 1995.

"We can see prices rising in all areas this year, except for lower quality sawn goods," the company said.

Increases are expected to be particularly marked for pulp, fine paper, coated magazine paper and paperboard. The company also expects volumes to rise strongly after recent mill upgrades, helped by strong demand in Scandinavian and European markets.

On the 1994 figures, the group said higher volumes, lower costs and exchange rate gains had compensated for the disruption caused by mill upgrading programmes and a 9 per cent rise in the markka.

Although pulp and fine paper prices rose strongly, prices for tissue, coated magazine paper and folding boxboard only started to increase towards the end of the year, limiting their impact.

The group said mill shutdowns were the main reason for lower operating profits of FM926m, against FM1.01bn, although it stressed that the underlying figure rose to FM965m from FM858m. The worst-hit sector was paper and paperboard, where operating profits fell to FM187m from FM419m.

Turnover was up a modest 3.3 per cent at FM9.48bn, because of lower markka prices for some products. However, the only division to make a loss was fine paper, which was hit by the surge in pulp prices.

The group took FM223m in exchange rate profits as a financial gain, helping to reduce overall financial outlays to FM140m from FM709m. It benefited from a reduced debt load and low interest rates. Earnings per share rose to FM22.45 from FM3.70.

# Storli returns to the black

By Karen Fossli in Oslo

*Norway's Storli*, one of the world's largest chemical tanker operators, returned to the black in 1994 with pre-tax profits of NKr221.46m ($34m), against losses of NKr49.38m a year earlier, and forecast further improvement in 1995.

The stronger result was achieved by a 17 per cent jump in freight rates on a time-charter basis, currency gains and stable costs. It was also helped by an increase in tonnage rates and higher transport volumes.

Storli has proposed to double its dividend to NKr1.50 a share.

Gross freight revenue rose by NKr33m to NKr2.59bn as voyage costs increased by NKr59.5m to NKr798.2m. Freight income on a time-charter basis rose to NKr1.79bn from NKr1.52bn as operating profits nearly trebled to NKr258.8m from NKr90.6m.

*Cash flow more than doubled* to NKr505.6m from NKr234.2m as operating costs rose by NKr22.2m to NKr562.9m, although Storli said that on a comparable fleet basis they were at the same level as in 1993 as measured in the domestic currency.

Storli said accounts were heavily influenced by exchange rate developments, with the average krone/dollar rate at NKr7.05 in 1994 against NKr7.10 in 1993. But by the end of last year it was NKr6.76 against NKr7.51 at the same time in 1993.

The 1994 result includes a *net currency gain of NKr39.4m* against a loss of NKr42.2m in the previous year.

Last year's gain comprised both unrealised and realised currency gains of NKr140.4m on long-term debt partially offset by unrealised currency losses of NKr106.5 on net current assets.

# Cincinnati Milacron reverses loss

By Laurie Morse in Chicago

Cincinnati Milacron, the US machine tool and plastics machinery-maker, turned in net income of $13m, or 38 cents a share, in the fourth quarter of 1994, reversing a loss in the same quarter a year earlier.

The 1993 quarter, however, included a substantial restructuring charge for the disposal of a plastics operation and reducing US machine tool operations. Without the one-time charges, it produced earnings of $4.5m, or 13 cents.

Sales jumped 18 per cent to $321m in the most recent quarter, from $273m.

The plastics machinery operations led earnings in the quarter and for the year, although machine tools returned to profitability in the fourth quarter. The machine tool side's top performer was the vertical machining centre division in the UK, which more than doubled unit production for the full year. US machine tool margins continued to suffer from production bottlenecks and parts shortages.

Furthermore, US machine tool orders dropped in 1994, despite a high level of inquiries, as customers pushed orders out into 1995.

At the year-end the company said its order backlog stood at $287m, compared with $246m a year earlier.

For the full year to December 31, Cincinnati Milacron earned $37.7m, or $1.10 a share, on revenues of $1.2bn, compared with a net loss of $45.4m, or $1.41, before non-recurring charges, on revenues of $1.0bn.

# Improvement for Skopbank

By Hugh Carnegy in Stockholm

Skopbank, the Finnish bank rescued by the state in 1991 and due to be reprivatised this year, reported a 43 per cent improvement in its results in 1994, but still returned a net operating loss of FM944m ($204m), following a deficit of FM1.6bn in 1993.

The bank, which acted as the central bank of the Finnish savings bank network, was the biggest casualty of Finland's banking crisis, swallowing FM18bn in government aid since it was bailed out by the Bank of Finland in 1991.

It is now the subject of mounting speculation. The three chief commercial banks, newly merged Kansallis-Osake-Pankki and Union Bank of Finland, state-owned Postipankki and the co-operative Okobank, have all expressed interest in acquiring Skopbank.

The government guarantee fund, the state unit set up to manage the FM40bn bank rescue operation, is Skopbank's principal shareholder and has said it intends to find a new owner for the bank this spring.

Skopbank still operates as the central bank for savings banks but is narrowing its other activities to focus on domestic corporate and wholesale markets. The chief factor in its improved result last year was a 65 per cent fall in loan losses to FM591m.

Total income fell by 70 per cent to FM216m, reflecting shrinking operations as, for example, the bank moved to end financing and investment projects abroad. Income was also hit by a FM55m loss in bond trading, against a FM121m surplus in 1993.

# Revised offer for US Shoe rejected

By Richard Tomkins in New York

Nine West, the US footwear group that two months ago claimed it had agreed to buy US Shoe's footwear business for $600m plus stock warrants, has announced that the deal is off.

Nine West said that the negotiations had been terminated because its due diligence review of the US Shoe business led it to decide its offer was too high. US Shoe rejected a revised offer of $525m in cash *plus warrants to buy 3.7m* units of Nine West stock.

Mr Bannus Hudson, US Shoe chief executive, said the lower price "wasn't even in the ballpark".

US Shoe is a retailer of women's clothing, optical goods and footwear with about 2,200 stores and annual sales of some $2.7bn. Nine West designs and sells women's shoes and has annual sales of about $550m.

Nine West first approached US Shoe last July with a proposal that US Shoe should spin off its clothing and optical businesses and merge its footwear business with Nine West's in a deal worth $425m. However, US Shoe's board rejected the idea.

In December, Nine West said it was offering $600m in cash for US Shoe's footwear business plus warrants to purchase 1.85m Nine West shares at an exercise price of $35.50 a share. One seven-year warrant would have been issued for every 25 US Shoe shares.

## NEWS DIGEST

### Sharp increase in profits at Woolworths

Woolworths, one of Australia's two big retail groups and its leading grocery supplier, unveiled a sharp increase in profits after tax and abnormal items for the six months to January 8 to A$131m (US$97m), from A$109.9m in the same period a year earlier, writes Nikki Tait in Sydney.

The profits advance came on total sales of A$6.88bn, compared with A$6.15bn. In the core supermarkets group, sales were up by 11.8 per cent, to A$5.82bn, and profits rose by 14.3 per cent to A$192.6m.

The company said it was satisfied with the first-half figures, but warned that higher interest rates could have some effect on the current six months, although new stores should also contribute.

*"Trading was good in December*, but not really buoyant and January showed signs of tightening up," said Mr Roger Corbett, deputy group managing director.

### Indonesian bank doubles income

Bank Dagang Nasional Indonesia, Indonesia's third-largest listed commercial bank, lifted unaudited net income in 1994 by over 118 per cent,writes Manuela Saragosa in Jakarta.

Net income rose to Rp134.6bn ($63m) from Rp62bn in 1993, operating income by 70 per cent to Rp385bn, and loans by over 58 per cent to Rp6,800bn.

### Cutting costs helps Sumitomo Chemical

Cost cutting and a rise in sales thanks to the economic recovery helped earnings at Sumitomo Chemical, writes Emiko Terazono in Tokyo.

*Non-consolidated earnings* rose 26.1 per cent to Y1.95bn ($20m) for 1994 on sales up 2.7 per cent to Y560.2bn. At the operating level, the company returned to the black, posting profits of Y2.3bn, while after-tax profits totalled Y3.4bn.

Group earnings fell by 39.7 per cent to Y21.5bn, however, on sales up 4.5 per cent to Y978.4bn, and net profits were 30.5 per cent lower at Y8.9bn.

### Strong growth for Air New Zealand

Air New Zealand lifted earnings by 59.4 per cent to NZ$140m (US$88m) in the six months to December, helped by strong growth in passenger and freight volumes, writes Terry Hall in Wellington.

Operating profit rose 90.6 per cent to NZ$167.4m. The company paid tax, of NZ$27.1m, for the first time. Passenger sales revenue rose 17.5 per cent to NZ$1.1bn and operating revenue 16.2 per cent to NZ$1.47bn.

## FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday February 17, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

| | | £ STG | US $ | D-MARK | YEN (X 100) |
|---|---|---|---|---|---|
| Afghanistan | (Afghani) | 5459.08 | 3463.03 | 2326.25 | 3552.06 |
| Albania | (Lek) | 158.38 | 100.489 | 67.502 | 103.072 |
| Algeria | (Dinar) | 66.9054 | 42.4499 | 28.5152 | 43.5411 |
| Andorra | (Fr Franc) | 8.1618 | 5.1784 | 3.4785 | 5.3115 |
| | (Sp Peseta) | 204.272 | 129.606 | 87.0613 | 132.938 |
| [illegible] | | | | | |
| France | (Fr) | 8.1618 | 5.1784 | 3.4785 | 5.3115 |
| Fr. Cty/Africa | (CFA Fr) | 816.18 | 517.848 | 347.858 | 531.16 |
| Fr. Guiana | (Local Fr) | 8.1618 | 5.1784 | 3.4785 | 5.3115 |
| Fr. Pacific Is | (CFP Fr) | 147.809 | 93.7814 | 62.9966 | 96.1922 |
| Gabon | (CFA Fr) | 816.18 | 517.849 | 347.858 | 531.16 |
| Gambia | (Dalasi) | 15.3276 | 9.725 | 6.5326 | 9.975 |
| Germany | (D-Mark) | 2.3483 | 1.4898 | 1 | 1.5280 |
| Ghana | (Cedi) | 1670.67 | 1060 | 712.044 | 1087.25 |
| Gibraltar | (Gib £) | 1 | 0.6344 | 0.4262 | 0.6507 |
| Greece | (Drachma) | 368.461 | 233.783 | 157.048 | 239.803 |
| [illegible] | | | | | |
| Niger Rep | (CFA Fr) | 816.18 | 517.848 | 347.858 | 531.16 |
| Nigeria | (Naira) | 34.6731 | 21.9993 | 14.7777 | 22.5648 |
| Norway | (Nor. Krone) | 10.3161 | 6.5453 | 4.3967 | 6.7135 |
| Oman | (Rial Omani) | 0.6068 | 0.385 | 0.2586 | 0.3948 |
| Pakistan | (Pak. Rupee) | 48.8512 | 30.888 | 20.7362 | 31.6615 |
| Panama | (Balboa) | 1.5761 | 1 | 0.6717 | 1.0257 |
| Papua New Guinea | (Kina) | 1.8454 | 1.1708 | 0.7865 | 1.2009 |
| Paraguay | (Guarani) | 3081.28 | 1955 | 1313.25 | 2005.26 |
| Peru | (New Sol) | 3.4579 | 2.1939 | 1.4737 | 2.2503 |
| [illegible] | | | | | |
| Yugoslavia | (New Dinar) (1) | | | | |
| Zaire Rep | (Zaire) | 5828.00 | 3697.73 | 2483.91 | 3792.79 |
| Zambia | (Kwacha) | 1268.79 | 805 | 540.749 | 825.633 |
| Zimbabwe | ($) | 13.1998 | 8.3749 | 5.6257 | 8.5902 |

Special Drawing Rights February 16 United Kingdom £0.942718 United States $1.48101 Germany DM2.21796 Japan Y145.287 European Currency Unit Rates February 17 United Kingdom £0.805886 United States $1.27104 Germany DM1.88686 Japan Y123.808

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate; (u) Currencies fixed against the US Dollar (v) Floating rate; ♦ CIS applies to states in the Rouble Zone. (1) Yugoslav Dinar rate n/a. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.

Friday February 17, 1995

FINANCIAL TIMES
MARKETS
THIS WEEK



## Global Investor / Tony Jackson in New York

# Adjusting to lower levels of inflation

Last week was a good one for those who believe inflation has stopped being a problem. According to the Organisation for Economic Co-operation and Development, inflation among its members last year was 2.4 per cent, the lowest since OECD records began in 1961. Even in the early-cycle economy of the US, at the peak of an unusually robust recovery, consumer prices in January were up only 2.9 per cent.

The previous week brought a telling piece of supporting evidence: the price of beer. Anheuser-Busch, America's biggest brewer, reported record beer volume for last year, and said it had pushed up its revenue per barrel by just 1 per cent. Emboldened by what it called the best prospects for five years, the company plans to raise its prices this year by closer to 2 per cent.

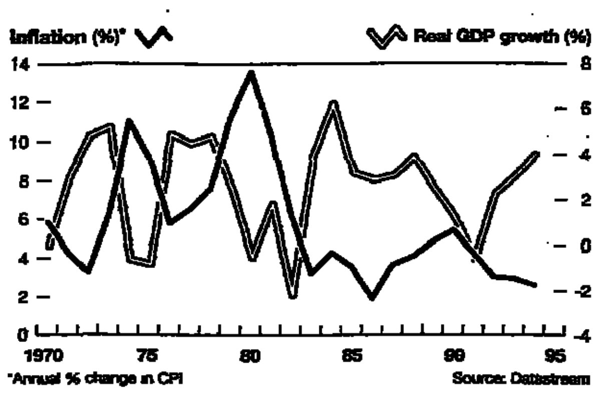
Now, even 2 per cent does not represent stable prices. But there is a heretical and growing body of opinion in the investment community which says that a little bit of inflation is not only harmless, but may be even desirable.

This is partly because the practical alternative to modest inflation could prove to be deflation. The damage this would do to most financial assets is self-evident; and as for the effects on the real economy, one need only think of what falling house prices have done to consumer confidence in countries like the UK.

There is also the increasingly popular view that a bit of price elasticity at the top of the cycle is a necessary lubricant for the economy. It allows the successful employer, for instance, to bid over the odds for the best workers. More generally, it allows what one US fund management house calls "price rotation" – the efficient flow of money to where the demand is in a rising economy.

If inflation really has subsided to a benign level – otherwise defined as a rate which does not affect the behaviour of people in business – the effects on the financial markets will evidently be profound. It is equally evident that the proposition is not universally accepted: if it were, the US long bond would scarcely be on a real yield of 4.7 per cent.

**US economy**




*Annual % change in CPI
Source: Datastream

But after a quarter of a century of malign inflation, that was not to be expected. The people handling big money – fund managers in their 40s, say – have been grappling with inflation all their working lives. For the change to take root in the markets, it might have to prove itself not just through this cycle, but through the next one as well.

All the same, it pays to plan ahead. Let us suppose, for the sake of argument, that benign inflation will be the rule from here on. In that case, plainly, bonds are cheap. But what will this new regime mean for the more complex world of equities?

Two useful rules of thumb are suggested by Ms Cornelia Small, global equity strategist at the big US fund managers Scudder, Stevens & Clark.

**Total return in local currency to 16/2/95**

| | US | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| | % change over period | | | | | |
| **Cash** | | | | | | |
| Week | 0.12 | 0.04 | 0.09 | 0.10 | 0.18 | 0.13 |
| Month | 0.48 | 0.19 | 0.41 | 0.46 | 0.73 | 0.51 |
| Year | 4.06 | 2.00 | 5.38 | 5.84 | 8.19 | 5.11 |
| **Bonds 3-5 year** | | | | | | |
| Week | 0.91 | 0.35 | 0.27 | -0.12 | -0.18 | -0.11 |
| Month | 2.02 | 1.24 | 1.25 | 1.33 | 1.24 | 0.86 |
| Year | -0.01 | 1.26 | 2.03 | 0.68 | 2.07 | 0.06 |
| **Bonds 7-10 year** | | | | | | |
| Week | 1.14 | 0.43 | -0.13 | -0.31 | -0.88 | -0.58 |
| Month | 2.50 | 1.13 | 1.65 | 1.74 | 0.36 | 0.98 |
| Year | -2.27 | -1.01 | -1.90 | -6.50 | -8.40 | -4.24 |
| **Equities** | | | | | | |
| Week | 1.0 | -1.9 | 0.4 | -1.7 | -3.8 | -1.4 |
| Month | 3.6 | -8.5 | 1.3 | -1.0 | -1.5 | -0.5 |
| Year | 6.4 | -10.6 | -2.3 | -15.9 | 0.6 | -7.9 |

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

First, the companies and sectors which perform best will be those with strong growth in volume, independent of price. Second, one obvious place to look for such growth is among big, established global corporations which have good access to the world's growth markets.

The first criterion tends to rule out companies serving traditional consumer markets. Anheuser's record volume last year, for instance, was based on an increase of just 1.4 per cent – hardly grounds for outperformance in a low-inflation world. US breakfast cereal makers are wrestling with layoffs and price freezes. Northern Foods, the big UK food processor, was complaining last summer of the first food price deflation since the 1930s.

There are various possible explanations for this. A persuasive one – in the US especially – has to do with the savings ratio. A number of economies in the developed world do not save enough, particularly for the purposes of retirement. Growing job insecurity among the middle classes means that savings are starting to grow at the expense of consumption.

Among consumer goods manufacturers, this argues in favour of companies like Unilever, Nestlé or Philip Morris, which have access to the high-saving, fast-growing economies of the developing world. Granted, companies that big cannot be expected to provide spectacular returns. On the other hand, they are protected by high barriers to entry.

Within the US, the argument points to companies with high growth in unit sales, like Intel, Compaq and Hewlett-Packard. For makers of high-tech electronics, the demise of inflation holds no terrors. They are used to a simple concept known as Moore's Law, which says the capacity of computer chips doubles every 18 months and the price halves accordingly.

For Ms Small of Scudder, another couple of categories suggest themselves. The big manufacturers of producer goods may be cyclical – an effect which is all the more obvious in a world of stable prices – but they should prove the beneficiaries of competitive investment. It may be time to reconsider the merits of stocks like Caterpillar, Boeing or ABB. It may even be worth thinking again about IBM.

The second category consists of companies which do odd jobs for other companies – the trend known as outsourcing. As with the first category, the principle is one of helping others to compete in an increasingly demanding world. The computer services company EDS, which handles other companies' information technology, now has a market value of almost $19bn. WMX, which makes a living collecting garbage, is worth some $13bn.

Behind all this lies a simple thesis. If inflation is dead or dormant, that cuts both ways. The game of pushing up prices – which did so much for august companies like Philip Morris and Guinness in their time – is no longer on offer. The companies which will reward investors are those which can sell more of their products. Finding them is a challenging proposition: but then, it always was.

## COMMODITIES / Caroline Southey

# EU butter market in disarray

All is not well in the European Union dairy market. This was signalled last week when Mr Franz Fischler, the new EU agricultural commissioner, announced a modest package of farm prices that included a 2 per cent reduction in the quota for milk and dairy products.

Mr Fischler's cut fits into Commission policy gradually to reduce the price of butter and make the market more competitive. The measure will not affect producers or consumers immediately because prices have reached levels generally higher than the intervention buy-in price.

But Mr Fischler was also sending a signal to farmers that growth in butter production offers little prospect for the future.

Although the Common Agricultural Policy has a quota system which seeks to control milk production, it remains 15 per cent higher than internal demand.

The EU's milk and dairy market, which supplies 45 per cent of the world market, has an achilles heel. Its butter prices are too high and continue to rise. Whereas the US market price is near $1,500 a tonne, the EU's average price is equivalent to $4,000.

A number of internal and external factors have aggravated the situation, leading to overheating in the market. Milk production is in its seasonal trough while stocks are at an all-time low.

There has also been an unforeseen increase in demand in Russia while in New Zealand production is down by about 2 per cent because of weather factors.

The Commission took emergency measures last week to dampen down exports by reducing export refunds for dairy products to ensure adequate supplies on the internal market.

Industry observers point out, however, that the outlook for the sector as a whole remains optimistic. High-volume Asian markets are developing as consumption grows for a range of dairy products such as cheese and dairy-based food ingredients.



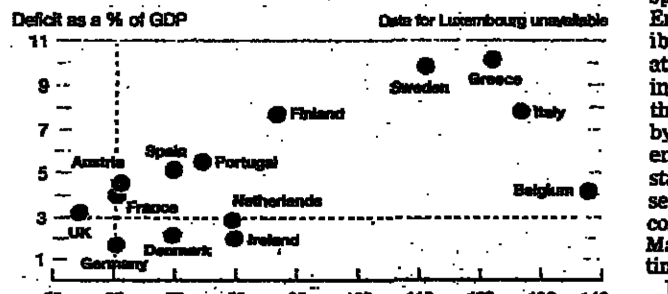
## Economic Eye / Martin Wolf

# Does Emu entail political union?

"It is quite possible to have monetary union without political union." This was among the most important propositions contained in the speech by Mr Kenneth Clarke, the chancellor of the exchequer, to the European Movement on February 9. Those labelled Eurosceptics in the UK would disagree. So, more interestingly, would the German chancellor, Helmut Kohl, and virtually every other German participant in this debate. Which side is right? The answer is that both are: Mr Clarke in theory, but Mr Kohl in practice.

Mr Clarke also argued that "there is not a snowball's chance in Hades of Europe embarking successfully on economic and monetary union (Emu) in 1997". The chart would seem to support him. The OECD's forecasts for 1996 – the year in which the European Union would have to decide whether Emu could proceed in 1997 – suggest that only Germany, the UK and Luxembourg (not included on the chart) would make the fiscal grade.

**Prospects for fiscal convergence by 1996**




Source: OECD 1996 forecasts

Things are not that bad (or good, depending on one's point of view), since Ireland has already been judged to meet the twin fiscal criteria, because of its low deficit and rapid recent decline in its debt ratio. Denmark, Ireland and the Netherlands are forecast to meet the deficit criterion, while Austria, Belgium, France, Portugal and Spain could do so with only modest effort. Meanwhile, Austria and France are forecast to meet the debt criterion, while the others would, like Ireland, show declining debt ratios if they were to meet the deficit criterion. While unlikely, therefore, it is not inconceivable that all the above countries (except, presumably, Belgium) could be held to meet the criteria next year. This would give the needed majority of eight, even with the exclusion of Denmark and the UK, the two opt-out countries.

In any case, Emu is likely by 1999. As Mr Clarke said, the UK needs a full and sensible national debate. But he himself was economical with the truth in making his case that a single currency need have little, if any, implication for political union.

The chancellor pointed to Bretton Woods, the gold standard and the links of the Dutch guilder and the Austrian schilling with the D-Mark. These examples are scarcely relevant. When managers of strong currencies have a limited (or even no) commitment to the weak ones, any failure to pursue policies consistent with maintaining the link leads ineluctably to its termination. But Emu is institutionally irrevocable.

Suppose a member government were to pile up so much debt that its solvency came into question; or a national labour market were to be so distorted that unemployment soared; or oil prices were to double. Under the systems described by Mr Clarke, convertibility could cease or exchange rates would be altered. Under Emu, by contrast, the problem facing one country would be shared, because its representatives would have a voice, possibly a strong one, inside the institution that permeates fiscal policy.

It would still be possible, in theory, for Emu to proceed without political commitments, other than those embodied in the Maastricht treaty: a single, independent central bank; a common exchange rate policy; centrally set curbs on government borrowing and debt; modest fiscal transfers to poorer member states; and no bail out of insolvent governments. The latter principle would then have to be applied rigorously, leaving the profligate to drown, while countries would have to manage their own adjustments to shocks, mainly via labour markets.

Pigs might fly. If insolvency threatened, there would be calls to bail out countries in difficulty, particularly if their debt loomed large in total European debt. If unemployment were high, there would be demands for an expansionary monetary policy. How rare it is, after all, even for French policy-makers to praise the Bundesbank for raising interest rates.

Larger fiscal transfers will be needed, partly to deal with regionally differentiated shocks, which will become more significant the more heterogeneous and economically specialised the countries in Emu. In the absence of a credible no bail out policy, attempts will also be made to increase the effectiveness of the weak limits on borrowing by member states. Pressure to enforce a collective fiscal stance will also increase. Consequently, even the political commitments embodied in the Maastricht treaty will, in time, seem inadequate.

In any case, Germans view further political integration as the price of consent to monetary union. Most Anglo-Saxon observers assume this demand has nothing to do with monetary union itself. They are wrong. Germans understand that their system, now incorporated within Emu, has worked because it operates within the shared values which permeate fiscal policy and pay bargaining. The mutual responsibility and trust required to make common monetary institutions work can, they believe, be measured by the extent to which countries accept political union. Such a union would, after all, be the clearest conceivable sign that differences among peoples, which could destroy the political legitimacy of the European Central Bank, are no more.

Yes, Mr Clarke, it is possible for a single currency to operate without further political integration. But it is hardly likely. Mr Kohl agrees with your predecessor, Norman Lamont, that political union would (or should) follow. They are right. Mr Lamont exaggerated when he described the UK's prospective position as similar to Delaware's. New York looks a more plausible exemplar.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | FRIDAY FEBRUARY 17 1995 US Dollar Index | % chg since 30/12/94 | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg from 30/12/94 | Gross Div. Yield | THURSDAY FEBRUARY 16 1995 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (68) | 159.26 | -7.2 | 149.82 | 98.16 | 123.26 | 143.65 | -2.4 | 4.05 | 161.36 | 151.79 | 99.49 | 125.11 | 143.99 | 181.43 | 157.95 | 180.85 |
| Austria (18) | 177.46 | -2.9 | 166.93 | 109.36 | 137.34 | 137.02 | -6.9 | 1.18 | 174.30 | 163.96 | 107.47 | 135.15 | 135.10 | 198.89 | 167.46 | 185.83 |
| Belgium (35) | 172.89 | 2.6 | 162.64 | 106.56 | 133.81 | 130.60 | -1.2 | 4.23 | 172.42 | 162.20 | 106.31 | 133.69 | 130.56 | 177.04 | 161.53 | 166.87 |
| Brazil (28) | 119.07 | -27.0 | 112.01 | 73.38 | 92.15 | 185.20 | -27.2 | 1.67 | 113.72 | 106.98 | 70.12 | 88.17 | 176.77 | - | - | - |
| Canada (103) | 125.71 | -2.8 | 118.26 | 77.48 | 97.30 | 128.20 | -2.6 | 2.72 | 125.94 | 118.48 | 77.66 | 97.65 | 128.25 | 141.01 | 120.54 | 135.72 |
| Denmark (33) | 260.45 | 3.4 | 245.01 | 160.52 | 201.58 | 207.93 | -0.2 | 1.52 | 261.02 | 245.54 | 160.94 | 202.38 | 208.96 | 275.27 | 236.61 | 269.11 |
| Finland (24) | 187.00 | 0.6 | 175.91 | 115.26 | 144.73 | 181.43 | -1.9 | 0.81 | 189.46 | 178.22 | 116.82 | 146.90 | 183.98 | 201.41 | 133.88 | 152.30 |
| France (101) | 164.58 | 0.6 | 154.82 | 101.43 | 127.38 | 133.70 | -2.4 | 3.22 | 165.37 | 155.56 | 101.96 | 128.22 | 134.49 | 181.44 | 157.79 | 179.38 |
| Germany (58) | 148.61 | 5.0 | 139.99 | 91.71 | 115.17 | 115.17 | 0.9 | 1.82 | 148.54 | 139.73 | 91.59 | 115.17 | 115.17 | 150.40 | 128.94 | 132.54 |
| Hong Kong (56) | 326.11 | 0.0 | 306.77 | 200.99 | 252.40 | 323.66 | -0.1 | 3.89 | 329.83 | 310.27 | 203.37 | 255.74 | 327.34 | 437.46 | 277.40 | 436.40 |
| Ireland (16) | 214.58 | 4.0 | 201.86 | 132.25 | 166.08 | 193.20 | 2.7 | 3.36 | 214.30 | 201.60 | 132.14 | 166.17 | 192.68 | 216.60 | 177.56 | 195.55 |
| Italy (58) | 79.54 | 6.1 | 74.83 | 49.02 | 61.56 | 95.54 | 5.2 | 1.63 | 79.41 | 74.70 | 48.96 | 61.57 | 95.03 | 97.78 | 67.25 | 78.39 |
| Japan (484) | 143.98 | -8.3 | 135.43 | 88.73 | 111.43 | 88.73 | -10.4 | 0.86 | 142.20 | 133.77 | 87.68 | 110.26 | 87.68 | 170.10 | 139.45 | 149.46 |
| Malaysia (97) | 497.64 | 3.8 | 468.13 | 306.70 | 385.16 | 489.49 | 3.8 | 1.72 | 494.60 | 465.27 | 304.97 | 383.50 | 486.14 | 594.76 | 398.16 | 490.32 |
| Mexico (18) | 941.78 | -33.5 | 885.93 | 580.43 | 728.90 | 6028.86 | -20.9 | 1.80 | 905.27 | 851.59 | 558.18 | 701.91 | 6052.48 | 2568.35 | 905.27 | 2568.35 |
| Netherland (19) | 225.21 | 3.5 | 211.85 | 138.80 | 174.30 | 171.57 | -0.4 | 3.37 | 223.86 | 210.58 | 138.03 | 173.57 | 170.98 | 225.21 | 191.28 | 204.95 |
| New Zealand (14) | 73.28 | 4.0 | 68.93 | 45.16 | 56.71 | 61.74 | 5.7 | 4.74 | 73.33 | 68.99 | 45.22 | 56.86 | 61.37 | 77.20 | 62.05 | 73.38 |
| Norway (23) | 213.61 | 0.2 | 200.94 | 131.65 | 165.32 | 169.77 | -3.0 | 1.93 | 213.63 | 200.96 | 131.72 | 165.64 | 189.66 | 216.03 | 177.53 | 200.23 |
| Singapore (44) | 351.41 | -5.8 | 330.56 | 216.58 | 271.99 | 235.35 | -6.1 | 1.82 | 353.14 | 332.20 | 217.75 | 273.82 | 236.36 | 401.38 | 294.66 | 346.27 |
| South Africa (59) | 302.35 | -10.2 | 284.42 | 186.34 | 234.00 | 257.07 | -14.3 | 2.63 | 302.03 | 284.12 | 186.23 | 234.18 | 258.78 | 342.00 | 205.55 | 250.50 |
| Spain (38) | 133.73 | 1.3 | 125.80 | 82.42 | 103.50 | 131.31 | -0.2 | 4.33 | 135.18 | 127.16 | 83.35 | 104.81 | 132.12 | 150.62 | 124.87 | 150.62 |
| Sweden (48) | 243.26 | 4.3 | 228.83 | 149.92 | 188.27 | 264.54 | 3.0 | 1.58 | 245.40 | 230.86 | 151.31 | 190.28 | 267.06 | 247.40 | 196.70 | 221.98 |
| Switzerland (47) | 169.33 | 2.5 | 159.28 | 104.36 | 131.05 | 132.15 | -1.4 | 1.86 | 170.46 | 160.36 | 105.11 | 132.17 | 133.11 | 170.46 | 149.91 | 169.42 |
| Thailand (46) | 150.84 | -4.6 | 141.89 | 92.96 | 116.74 | 146.21 | -5.1 | 2.89 | 152.69 | 143.64 | 94.15 | 118.39 | 148.26 | - | - | - |
| United Kingdom (204) | 194.88 | -0.1 | 183.14 | 119.99 | 150.69 | 183.14 | -0.8 | 4.26 | 195.09 | 183.52 | 120.30 | 151.27 | 183.52 | 208.55 | 181.11 | 208.55 |
| USA (513) | 197.41 | 5.1 | 185.71 | 121.67 | 152.79 | 197.41 | 5.1 | 2.86 | 198.70 | 186.92 | 122.52 | 154.07 | 198.70 | 198.70 | 178.95 | 191.28 |
| Americas (662) | 180.82 | 3.8 | 170.09 | 111.44 | 139.94 | 151.69 | 4.0 | 2.83 | 181.80 | 171.02 | 112.10 | 140.96 | 152.56 | - | - | - |
| Europe (720) | 171.98 | 1.8 | 161.78 | 106.99 | 133.10 | 149.92 | -0.5 | 3.12 | 172.32 | 162.10 | 106.25 | 133.61 | 150.27 | 176.01 | 160.59 | 173.43 |
| Nordic (128) | 233.05 | 3.8 | 219.23 | 143.63 | 180.37 | 214.26 | 1.8 | 1.47 | 234.78 | 220.86 | 144.76 | 182.04 | 216.07 | 235.72 | 197.70 | 214.72 |
| Pacific Basin (809) | 152.26 | -7.3 | 143.23 | 93.84 | 117.84 | 96.30 | -8.9 | 1.23 | 150.86 | 141.91 | 93.02 | 116.97 | 97.38 | 176.86 | 145.93 | 160.75 |
| Euro-Pacific (1529) | 160.38 | -3.5 | 150.87 | 98.84 | 124.13 | 118.21 | -6.3 | 2.08 | 159.70 | 150.23 | 98.47 | 123.63 | 117.72 | 175.14 | 154.73 | 165.87 |
| North America (616) | 192.97 | 4.8 | 181.53 | 118.93 | 149.35 | 192.72 | 4.8 | 2.85 | 194.20 | 182.69 | 119.74 | 150.57 | 193.93 | 194.20 | 175.67 | 187.83 |
| Europe Ex. UK (516) | 155.69 | 2.9 | 146.45 | 95.95 | 120.49 | 130.06 | -0.3 | 2.49 | 155.98 | 146.73 | 96.18 | 120.94 | 130.38 | 158.12 | 144.12 | 152.28 |
| Pacific Ex. Japan (325) | 233.49 | -2.0 | 219.65 | 143.91 | 180.72 | 207.25 | -0.8 | 3.24 | 235.15 | 221.21 | 144.99 | 182.33 | 208.02 | 273.84 | 211.19 | 269.56 |
| World Ex. US (1737) | 160.56 | -4.0 | 151.04 | 98.96 | 124.27 | 121.10 | -5.8 | 2.10 | 159.85 | 150.37 | 98.56 | 123.84 | 120.62 | 176.65 | 155.42 | 167.58 |
| World Ex. UK (2046) | 169.34 | -0.9 | 159.30 | 104.37 | 131.06 | 139.93 | -2.1 | 2.18 | 169.23 | 159.19 | 104.35 | 131.21 | 139.89 | 178.59 | 163.46 | 171.37 |
| World Ex. Japan (1766) | 187.92 | 2.3 | 176.77 | 115.81 | 145.44 | 177.59 | 1.8 | 2.97 | 188.70 | 177.51 | 116.35 | 146.31 | 178.37 | 192.00 | 178.34 | 189.48 |
| The World Index (2250) | 171.58 | -0.9 | 161.40 | 105.74 | 132.79 | 143.81 | -2.0 | 2.38 | 171.51 | 161.34 | 105.75 | 132.98 | 143.79 | 180.80 | 165.92 | 174.44 |

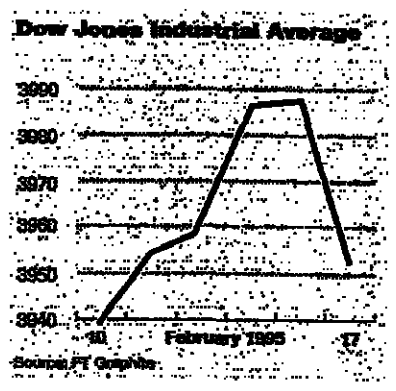

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.84 (Local).

صكرا من الاهل

# EQUITY MARKETS: This Week

## NEW YORK
Lisa Bransten

### All eyes turn to the chairman of the Fed




US investors are likely to hang on every word of Mr Alan Greenspan in this holiday-shortened week as the chairman of the Federal Reserve discusses monetary policy objectives before a Congressional panel Wednesday. The market is closed today in observance of the Presidents' Day holiday.

Last week, the market surged to record levels as investors placed bets that the Fed had finished tightening monetary policy. The Dow Jones Industrial Average approached the psychologically important 4,000 level before giving back nearly all the week's gains in the final half-hour of Friday's trading.

Although most of Friday's decline sprung from selling related to expiring options on stocks and stock-indexed futures, the market came under some pressure from the declining currency and bond markets.

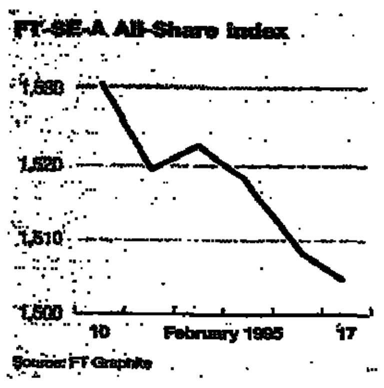
In intra-day trading the dollar touched a two-year low against the D-Mark, leading some to speculate that the Fed might raise interest rates to shore up the currency.

The most important economic figures will not be announced until Friday, when data on January durable goods orders will be released. The median forecast has orders declining by 0.8 per cent, indicating a slowing economy.

After that, investors will probably turn their attention to next week, when important data on the growth of gross domestic product are due.

## LONDON
Terry Byland

### Attention diverted from domestic data




The fall in the US dollar and the Mexican financial crisis have diverted the London market's attention from the keenly-awaited news on domestic inflation and economic progress. UK equities are unlikely to settle down again until these international problems are sorted out.

Some market strategists believe this could be misleading, since the UK *inflation and pricing* data have "put global bond markets on notice", as Mr Albert Edwards at Kleinwort Benson puts it. But he adds that even in the UK, equities have been protected from the wider implications of deteriorating inflation data by the strength of the bond markets, which have sustained both Wall Street and London. In the UK, Kleinwort believes undemanding valuations of equities versus bonds will continue to support share prices.

Against this somewhat unenthusiastic stage-set for the coming week, the chart technicians offer little encouragement. *Derivatives Securities*, which tracks the futures markets, says that UK equities appear to be "fairly overbought". It sees a resistance line around Footsie 3,044, with that line inclining downwards towards 3,020.

The British government's political problems, which have been exercising the minds of the foreign exchange markets, receive little attention from UK equity analysts. This is not to say that Mr Major's problems could not become the market's, but there is little sign of that at present.

## Global share offerings

# Attractively priced issues tempt cautious investors

While the volume of equity issuance in Europe and the US is recovering from its lows at the beginning of the year, emerging-market issuers remain sidelined, their markets dogged by worries over rising interest rates, politics and the financial crisis in Mexico.

But even in the "developed" *markets, investors remain* wary, going for defensive and cyclical stocks which offer good earnings potential and are attractively priced.

While there is no shortage of potential issuance from companies and governments, the cautious stance of investors has squeezed the amount of supply the market can digest. So far this year, there have been 18 international equity offerings worth $5.1bn, compared with 72 issues worth $19.2bn in the first two months of 1994 and 31 deals worth $8bn in the same period in 1993, according to Euromoney Bondware.

Of the issuers which have braved the market in recent weeks, some have been rewarded for their solid fundamentals and attractive pricing with surprisingly strong investor demand.

One such offering was the sale of 27m shares in Cardo, the Swedish engineering company being re-floated after Incentive bought it last year and restructured it.

The issue was priced on Thursday at SKr85 a share, against the indicated SKr77 to SKr87 price range, and by Friday afternoon was trading around SKr87. Merrill Lynch and Svenska Handelsbanken are joint global co-ordinators for the deal, which was more than five times subscribed.

Another successful offering was the privatisation sale of Seita, the French tobacco monopoly 3.9 times subscribed by private investors. The finance ministry plans to claw back 20 per cent of shares previously allotted to institutional investors to meet retail demand. Including the extra allocation, a total of 16.6m shares will have been sold to private investors at FFr129 a share, compared with a planned 13.3m shares.

Institutional investors subscribed 9.2 times to the offer, at FFr133 per share. A total of 11.6m shares will be allotted to institutional investors, with 38 per cent going to French institutions, 55 per cent to other European institutions and 7 per cent to the rest of the world.

Last week's IPO for Global*star Telecommunications*, a partnership formed by Loral Corporation and Qualcomm of the US to design, build and operate a satellite-based mobile communications system, got off to a bumpier start.

The shares were priced at $20 – below the indicated range of $21 to $22 – and the price fell in the days following the launch, trading on Friday around $17. Some blamed difficult IPO market conditions for the lukewarm reception, but others said investors were reluctant to participate in a company not expected to generate revenues for several years.

"We looked at the company and liked it – but the problem is that it doesn't earn any revenues until around 1999," said Mr Michael Mahoney, portfolio manager at the GT Global Telecommunications Fund in San Francisco. "My feeling is: why buy it now?"

Meanwhile, market participants are getting ready for the privatisation of two UK power generators. The UK government plans to sell its remaining holding in PowerGen and National Power, worth about £4bn, in two parts: a UK public offer targeted at retail investors, and two international tender offers (one for shares in National Power and the other in PowerGen) aimed at institutional investors in the UK and worldwide.

Both companies began roadshows last week, in London, Frankfurt, Zurich, Geneva, Milan, Paris, Stockholm, Amsterdam and several US cities, and presentations will continue this week. The formal book-building period, when investors can submit bids for shares in either or both companies, starts Thursday and ends on March 3.

"The level of interest and inquiries during the roadshow has been very, very good," said a spokesman for joint global co-ordinators BZW and Kleinwort Benson.

Other deals being prepared for launch include an 11m share IPO for ASM Lithography, the Dutch producer of photo-lithography equipment used to make semi-conductors. *ASM is 95 per cent owned by* Philips, which wants to sell about 30 per cent of its holding.

The issue was filed with the SEC last week at a price range of $14½ to $16½. The shares are expected to be priced in mid-March, with listings on Nasdaq and the Amsterdam stock exchange. CS First Boston is global co-ordinator, with Morgan Stanley acting US co-manager and international co-lead with ABN Amro.

CS First Boston will also lead a 35m share IPO for the VME group, which makes heavy construction equipment. The shares represent Clark Equipment's 50 per cent stake in the company, the other half of which is owned by Volvo. The offering has been filed at the SEC at a price of $20 per share. The syndicate has not yet been finalised; pricing is expected in early April.

In Scandinavia, dealers are looking to the IPO of Gränges, the Swedish producer of value-added aluminium products being spun off by Electrolux. Enskilda and Goldman Sachs have been appointed joint global co-ordinators for the deal, which is expected to total around $600m.

Lindex, the Swedish clothes retailer, last week launched an IPO expected to raise more than SKr1bn. From 60 to 80 per cent of the company is to be sold, divided between Swedish and overseas investors. S. G. Warburg and Handelsbanken Markets are global co-ordinators.

Elsewhere, Merrill Lynch was appointed global co-ordinator for the public sale of 26 per cent of the Israeli government's 77 per cent holding in Bezeq Israel Telecom. The government hopes to raise some $500m from the sale.

**Conner Middelmann**

## OTHER MARKETS

### MILAN

Italian financial markets are anxiously awaiting details this week of the government's measures to bring the country's 1995 budget deficit back on target, and signs of whether the proposals will win parliamentary approval.

Mr Lamberto Dini, the prime minister, said last week that the package, equal to around 1 per cent of GDP, was in an advanced state of preparation and would include permanent measures both on the tax and the revenue side.

The market, fairly resilient since Mr Dini took office, came under pressure last week as talk surfaced of an early election, perhaps as soon as in June.

Last Thursday, the market tumbled as the Bank of Italy intervened in the currency market to support the lira, as the currency dipped to a record low against the D-Mark, sparking worries that the Bank might also be prompted to raise interest rates.

### AMSTERDAM

Investors will be eagerly awaiting final results from a number of large international companies this week, including Philips, PolyGram, Unilever and Royal Dutch, *writes John Pitt*. Philips, says UBS, is likely to have continued its strong earnings recovery in the fourth quarter, in spite of the weakness of the US dollar.

"The shares," says the broker, "do not fully reflect the prospects of a full profits recovery, and growth prospects of the company. We estimate fair value for the shares at Fl 70 and see the 1998 warrants as very attractive."

### ZURICH

UBS, still locked in battle with Mr Martin Ebner over plans for a single class of share, begins on Friday what is expected to be an almost universally downbeat reporting season from the banks.

However, many analysts believe that sharply lower results for 1994 are already in the banks' share prices and that investors will soon be able to look forward to more positive performances in 1995.

Mr Sylvan Zuelle at Bank Sal Oppenheim in Zurich forecasts a 26 per cent fall in profits from UBS, largely as a result of a 57 per cent fall in trading income and lower interest income.

Meanwhile, he expects BIL GT, the Liechtenstein-based global banking group with funds in the UK, the US and Asia Pacific to report a 20 per cent increase in net income on Friday, benefiting from a rise in commission income, which makes up 70 per cent of its earnings.

### FRANKFURT

IG Metall's threat of a ballot for extended strike action left the market looking somewhat vulnerable last week, putting pressure on motor vehicle manufacturers and engineers.

This week, the market will be focusing on the press conferences of Mannesmann today and Klöckner-Werke tomorrow, and the Siemens annual meeting on Thursday.

### OSLO

The market was under pressure last week, with lower than expected figures from Hafslund capping a depressing week. Investors will, however, be looking to Norsk Hydro for some respite today, with analysts forecasting impressive figures on the back of higher oil and gas production and higher prices for aluminium, fertiliser and PVC. Christiania Bank and Orkla report full-year figures on Wednesday.

### TOKYO

The worsening supply/demand situation is expected to weigh on investor confidence this week, *writes Emiko Terazono*. The large arbitrage overhang is likely to remain a concern until the March 10 settlement for March futures contracts, while foreign and corporate investors are expected to continue selling.

Buyers, on the other hand, are scarce. Public funds have little of the money allocated to stock investments left, while investment trusts are experiencing an outflow of capital due to redemptions. Individuals, who have led the recent rally in construction stocks, have tired of the theme. Mr Jason James, strategist at James Capel, is bearish in the short term, due to the expected oversupply.

Meanwhile, some investors wonder whether the high-technology sector, which has taken a beating during the past few weeks, is worth buying.

The Nikkei 225 index has fallen 8.6 per cent since the start of the year, while the Nikkei electronic machinery index has declined by 17.9 per cent and Sony, the consumer electronics maker, is 22.1 per cent down.

### HONG KONG

Wednesday's land auction, at which five plots of land go under the hammer, will prove the key focus for investors this week, *writes Louise Lucas*. In contrast to recent auctions, this week's event is expected to bring out more participants and healthier bids, and stands to spur the property sector.

Last week, Hang Leung Development's pre-sale of flats in Quarry Bay, on the east of Hong Kong island, fared better than recent sales and sparked a new mood of optimism for the sector.

Two other big developers, Cheung Kong and Sun Hung Kai Properties, are due to announce further sales of apartments and these prices too will be closely scrutinised.

Further clues to trading, which is forecast to remain within the 7,800 to 8,200 range, will come from Wall Street and more specifically the US-China trade talks.

HSBC Holding and Hang Seng Bank, the colony's two biggest banks, are due to unveil their results next Monday and attention will gravitate towards the finance sector in the run-up to the announcements.

*Compiled by Michael Morgan*

# EMERGING MARKETS: This Week

## The Emerging Investor / Virginia Marsh in Budapest

# Waiting for privatisation

Hungary's Socialist-led government will have gone a long way towards restoring international confidence in its commitment to reform and foreign investment if its nominations for the vacant posts of finance minister and central bank governor are formally approved by parliament this week.

The nominations of two prominent and highly-respected local bankers, Mr Lajos Bokros as finance minister, and Mr Gyorgy Suranyi as president of the National Bank of Hungary, have calmed investors following a disastrous start to the year by the new government.

January saw: the cancellation of a high-profile privatisation deal by the cabinet; the sacking of the reformist privatisation chief; the resignation of Mr Laszlo Bekesi, finance minister and the main architect of the government's economic programme; and ill-disguised tensions over the direction of reform within the ruling Socialist-Liberal coalition.

All this – at a time when investors were reassessing their exposure to emerging markets in the wake of the financial crisis in Mexico – helped knock 20 per cent off the Budapest Stock Exchange in just four weeks.

It also led Standard & Poor's, the ratings agency, to downgrade its outlook for Hungary's foreign debt from "stable" to "negative".

Most members of the business community regard Mr Bokros and Mr Suranyi as two of the best possible choices for the posts.

Nonetheless, analysts remain cautious about the political outlook. They say it is not clear that the nominees will enjoy any more backing from the cabinet than Mr Bekesi, whose reform programme they have broadly pledged to continue. They believe portfolio investment prospects for this year will depend on decisions the government is due to make on privatisation in the next few weeks.

"The appointments are a step in the right direction, but not enough in themselves to restore full confidence," said Ms Frances Cloud, east Europe equity analyst at Nomura in London.

"The government has to name a privatisation minister, come up with a proper privatisation programme, set a realistic timetable for selling companies and go through with some sales in order to regain credibility . . . At the moment, there's still uncertainty and a degree of impatience."

The ruling parties are expected to agree on a privatisation minister this week. But the main test for the government will be whether it can quickly push a new *privatisation bill* through parliament and restart state sell-offs, which have ground to a near-halt in the six months since it took office.

The only big deal in the pipeline at present is the sale of Budapest Bank, a leading state commercial bank, to Credit Suisse.

As well as a strategy to speed up privatisation, the draft bill contains government guidelines for the sales of some *of Hungary's largest and most* attractive companies, including most of the energy sector, over the next two to three years.

Under plans approved by the cabinet last November, the government *has agreed to sell* off 100 per cent – minus one golden share – of its non-nuclear power generation, gas and electricity supply companies, and 50 per cent minus one share of its core electricity company.

It has also agreed to privatise 75 per cent minus one share of MOL, Hungary's integrated oil and gas company and one of eastern Europe's largest corporations. MOL alone has a book value of about $3.5bn.

Several of western Europe's largest energy companies have already had local representative offices in Hungary for more than two years in anticipation of the sales.

Under the strategy, stakes in energy companies would be sold to strategic industrial investors. Sales would be followed up with private placements to institutional investors and with domestic and international public offers.

Utility privatisations would spearhead a wave of public offers and listings on the BSE, which is much smaller than the other two main central European bourses in Prague and Warsaw and is hindered by its lack of liquidity.

"The value of equity offerings from state companies could be in excess of $3bn over the next three years. This is in addition to revenue from sales to strategic investors," says a western privatisation adviser in Budapest. "There will be a good 25 opportunities for emerging markets funds and other international investors. *The bulk of these will be in the* energy sector but they will also include secondary offerings in state companies which have already been partially privatised such as Matav, the telecoms company, or the big pharmaceutical companies."

Some amendments to the privatisation bill are expected and analysts say the government may reduce the size of the stakes it is prepared to sell in strategic companies. But most are confident the government will eventually continue with privatisation.

"There is a heightened sense of country risk after the events *of the past weeks*," says Mr Spencer Jakab, equity analyst for Hungary at CS First Boston. "But, in a sense, the government's hands are tied. The government's dependence on privatisation revenue and foreign investment has always helped privatisation in Hungary – money is needed to offset the state's deficits."

This year alone, the state budget is counting on Ft150bn ($1.3bn) from privatisation to help it meet a target deficit equivalent to 5.5 per cent of gross domestic product. The government is budgeting for a similar amount in direct foreign investment to help offset the current account deficit which last year reached a record $3.9bn.

With a privatisation law not likely before the end of March at the earliest, these targets *now look unreachable*.

The impact of a shortfall in privatisation revenues on the budget and government borrowing was one reason Standard and Poor's revised Hungary's rating downwards.

"Hungarian companies are generally far, far better than most Czech companies, but the overall macro-economic situation in Hungary is definitely worse," says Mr Tom Howells, managing director of Somerset Venture Management, a venture capital company in Budapest.

"The Mexican crisis has illustrated that even if you invest in the best companies in the world, if the currency loses 40 per cent in a few days, the value of your investment loses 40 per cent too."

He says it will be a while before many fund managers, especially those with large losses in Mexico, invest heavily in emerging markets again. But, like other analysts, he says that, after January's heavy losses, there are many bargains on the BSE. Foreign investors with local knowledge have already begun to buy up some of the best value stock.

### Argentine market beset by gloom

**Friday came as a respite to shaken Argentine traders. After 10 consecutive sessions of free fall – when the blue-chip Merval index lost 30 per cent on concerns over the rickety financial system and delays to Mexico's rescue package – the market rebounded by 6.7 per cent, *reports David Pilling from Buenos Aires*.**

But few traders are brave enough to predict a sustained rally. "We came from such an extreme low, that this was more of a technical recovery. I wouldn't read too much into it," said one. Since Mexico's devaluation, the Merval index has sunk 33 per cent, while government bonds have dropped between 8 and 31 per cent.

Argentina's fate continues to be wedded to Mexico's, despite repeated attempts to separate the two in investors' minds. Added to regional gloom are fears about Argentina's banking sector where severe liquidity problems have caused the suspension of four wholesale institutions.

As a wave of mergers and acquisitions sweep through the system, and as bail-out funds set aside to inject liquidity into teetering banks run out, analysts watch daily for signs of a retail-bank collapse.

There is also growing concern that Argentina may drift into recession as capital inflows slow. Tax revenue would then suffer, and *private companies would find it difficult to borrow*. Some economists fear a Brazilian devaluation, which would make exports less competitive in Argentina's most important market. Even snippets of good news have failed to lift markets.

## News round-up

■ **Asian strategy**

Asian stock markets are showing signs of bottoming with Hong Kong and Malaysian stocks set to rise by about 20 per cent by the end of this year, Mr Alan Butler-Henderson, Baring Securities' Asian strategist, has forecast.

Singapore would continue to hold its defensive position and might see an upside of about 10 to 15 per cent by the year end, he added. Thailand's stock market is unlikely to see a big rise since its correction has not been that sharp.

■ **Rabat**

Morocco and France signed an agreement last Thursday to modernise the Casablanca stock market along the French model. Under the accord, the French government will fund a study on how to modernise and computerise the Casablanca bourse and eventually create a central depository and clearing house.

● The president of the Paris Bourse is expected on Thursday to sign agreement on technical assistance for reopening the Beirut Stock Exchange.

■ **Colombo**

Analysts expect political uncertainty, rising interest rates and a loss of confidence in emerging markets to keep Sri Lanka stocks at current levels in the short term.

Analysts believed an upturn would have to wait until the second half of the year.

■ **Dhaka**

Bangladesh has announced the creation of the country's second stock exchange in the southern port city of Chittagong. It will have paid up capital of Tk50m, divided into 500 shares at Tk100,000 each.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

**Baring Securities emerging markets indices**

| Index | 17/2/95 | Week on week movement Actual | Percent | Month on month movement Actual | Percent | Year to date movement Actual | Percent |
|---|---|---|---|---|---|---|---|
| World (301) | 132.36 | -7.27 | -5.20 | -15.56 | -10.52 | -25.67 | -16.24 |
| Latin America | | | | | | | |
| Argentina (20) | 67.40 | -11.68 | -14.77 | -20.17 | -23.03 | -18.71 | -21.73 |
| Brazil (21) | 143.05 | -25.40 | -15.08 | -55.86 | -28.01 | -66.32 | -31.67 |
| Chile (12) | 180.70 | -16.34 | -8.29 | -34.47 | -16.02 | -30.87 | -14.59 |
| Mexico (25) | 66.28 | -5.12 | -7.17 | -17.87 | -21.24 | -31.34 | -32.11 |
| Peru(16) | 674.79 | +29.87 | +4.60 | -97.73 | -12.65 | -173.87 | -20.49 |
| Latin America (94) | 99.87 | -12.52 | -11.14 | -30.14 | -23.18 | -38.90 | -28.03 |
| Europe | | | | | | | |
| Greece (16) | 87.80 | +4.34 | +5.21 | +3.34 | +3.97 | +0.61 | +0.70 |
| Portugal (18) | 117.25 | +1.21 | +1.04 | +0.43 | +0.36 | -0.97 | +0.83 |
| Turkey (21) | 72.58 | +2.49 | +3.55 | +3.74 | +5.43 | -3.53 | -4.64 |
| Europe (55) | 97.21 | +2.85 | +3.02 | +2.47 | +2.61 | -0.48 | -0.49 |
| Asia | | | | | | | |
| Indonesia (26) | 131.36 | +1.32 | +1.02 | +3.19 | +2.49 | -2.33 | -1.74 |
| Korea (23) | 120.09 | -6.49 | -5.12 | -3.50 | -2.83 | -19.79 | -14.15 |
| Malaysia (23) | 218.31 | +3.21 | +1.48 | +15.28 | +7.53 | +7.45 | +3.53 |
| Pakistan (11) | 90.19 | -5.30 | -5.55 | -9.39 | -9.43 | -16.01 | -15.08 |
| Philippines (12) | 261.53 | -4.33 | -1.63 | +7.19 | +2.83 | -20.59 | -7.30 |
| Thailand (25) | 245.72 | +1.12 | +0.46 | +13.12 | +5.64 | -5.82 | -2.35 |
| Taiwan (32) | 169.07 | +1.18 | +0.70 | +0.40 | +0.24 | -15.08 | -8.19 |
| Asia (152) | 203.45 | +0.07 | +0.04 | +7.27 | +3.71 | -7.16 | -3.40 |

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

## CURRENCIES
Philip Gawith

# Markets wait for intervention

Currency markets look set for a lively week, albeit with a possible delay until US markets return tomorrow from the President's day holiday.

The dollar finished last week below DM1.50, deep in intervention territory. The corollary of dollar weakness, abetted by political uncertainty in Europe, was a strong D-Mark.

This had the effect of pushing some European currencies to record lows, with sterling and the Italian lira two conspicuous examples.

The outlook must be for more of the same, in the absence of any change to the underlying fundamentals in the market.

The main factor likely to prevent markets going lower will be the fear of central bank intervention to support the dollar. For this to be successful, though, the market needs to be short of dollars.

At the end of last week, most observers felt that while the market might have been short of most European currencies, it was not yet short of the dollar.

A cautionary note, however, came from Mr Mike Rosenberg, head of international fixed income research at Merrill Lynch in New York. "When you don't expect something to change, something will. It is complacency that causes these moves."

The market will be short of US data to feed on. The key event will be the semi-annual Humphrey Hawkins testimony to congress, from Mr Alan Greenspan, the Fed chairman.

Other than that, traders are likely to be keeping their focus south of the border. Concern about the cost of the Mexican crisis to the US is depressing the dollar.

In Europe, markets will be watching developments on the German labour scene, with the IG Metall union looking likely to call for a strike in Bavaria.

Current indications are that a decision to hold a strike might support the D-Mark, because the market assumes it will accelerate a monetary tightening in Germany.

If last week is any guide, the currencies to watch will be the lira, sterling, the peseta and the franc.

# WORLD BOND MARKETS: This Week

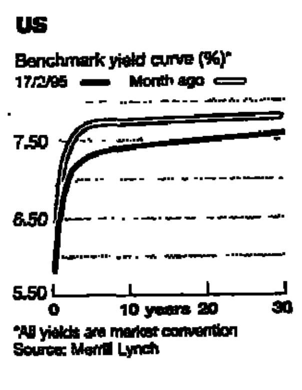
## NEW YORK — Richard Tomkins

Treasuries ended a quiet session slightly lower on Friday as traders cleared their desks ahead of the weekend holiday, which continues today with Presidents' Day. The benchmark 30-year bond ended $\frac{1}{8}$ down at $100\frac{5}{8}$, yielding 7.58 per cent.

When trading reopens tomorrow, the market's main preoccupation is likely to be concern over the dollar's weakness. It hit a two-year low against the D-Mark on Friday amid continuing concern over the implications of Mexico's financial crisis, and many market participants view its troubles as far from over.

A weaker dollar could be inflationary, which would be bad news for the bond market as inflation erodes the value of fixed-income investments.

New issue activity could also add to downward pressure on the market, with strong demand expected for the Treasury auctions of two-year notes today and five-year notes tomorrow.




Fresh economic data will be thin on the ground this week, although figures for January's durable goods orders may prompt some interest on Friday.

However, the week's highlight is likely to come tomorrow when Mr Alan Greenspan, chairman of the Federal Reserve, makes one of his twice-yearly appearances before Congress to testify on the Fed's monetary policy objectives.

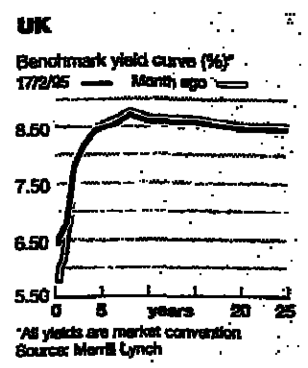
## LONDON — Graham Bowley

The most important event for the UK gilts market this week is the auction on Wednesday by the Bank of England of £2bn of 8½ per cent 2005 gilts.

Mr Brian Plaistowe, head of gilt trading at Nomura, thinks the auction will be well covered. With the US Treasury market closed today, he reckons primary dealers could drive gilt prices lower ahead of the auction. Foreign exchange movements, in particular the recent strength of the D-Mark, and UK politics could also have an impact.

Mr John McNeill at IDEA thinks the framework document on Northern Ireland could be published as early as this week and could lead to political uncertainty, which would unsettle overseas investors in particular.

There is little significant economic data due this week. Mr Don Smith, UK economist at HSBC, thinks that M4 lending figures due today could paint a buoyant picture of the economy, with lending to the corporate sector rising. This could be a negative influence on the market, although if it supports sterling, gilts could benefit, says Mr Smith.




On Friday, the CBI publishes its industrial trends enquiry. Gilts investors are nervous about rising producer price inflation and are likely to focus on the price expectations part of the survey, which has been disappointing in recent months.

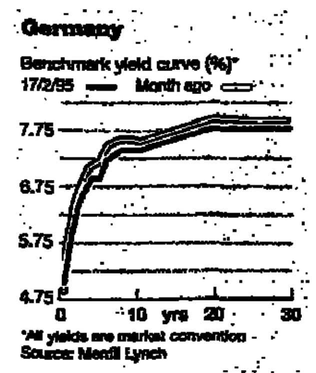
## FRANKFURT — Andrew Fisher

With an engineering strike in the offing after 11 years of industrial peace in the sector and further evidence of a stronger than expected upturn in the west German economy, bond traders will be watching closely to see how the Bundesbank reacts to keep renewed inflationary pressures in check.

A strike in the engineering sector, for which the IG Metall union has made a 6 per cent pay claim, now seems inevitable. Any settlement closer to 4 per cent than 3 per cent will give the central bank cause for concern.

Inflation is easing – it is now at an annual rate of a little over 2 per cent – but the bank will be looking to tighten monetary policy later this year as price pressures start building up again.

Last week's gross domestic product figures also reinforced the views of those expecting the Bundesbank to consider raising official interest rates again, though probably not before May's French general election.




The data showed a 0.8 per cent rise in fourth-quarter GDP compared with the third quarter and one of 2.5 per cent for the full year.

With private consumption still weak, the Bundesbank can afford to wait a little before acting. But a strike in the engineering industry – with Bavaria chosen as the battle ground – will concentrate its mind.

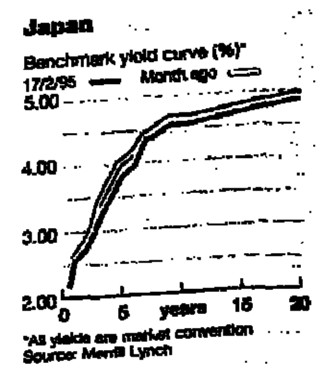
## TOKYO — Emiko Terazono

Bond market participants will focus on Wednesday's press conference by Mr Yasuo Matsushita, the governor of the Bank of Japan, for clues on the direction of monetary policy.

Although the central bank tried to counter expectations of lower short-term interest rates last week, by increasing the deficit on bank reserves, analysts expect it to try to avoid a rise in the short end in the face of a weak stock market and March year-end funding by the banks.

The volatile stock market last week also fuelled hopes of lower short-term rates, as did fears that a growing scandal involving two defunct credit unions could delay the resolution of the banking industry's bad loan problems.

The fall on the stock market and continued low demand for funds has so far helped bonds with shorter maturities. Last month, insurance companies bought a record net Y1,200bn in bonds.




However, with concerns of oversupply ahead of the March book closing and funding for the reconstruction of Kobe, the city devastated by last month's earthquake, investors are unlikely to be aggressive buyers. Long-term yields have been stuck between 4.5 and 4.8 per cent since November.

"People are still waiting for an event to push the market out of its trading range," says Mr Marshall Gittler, an analyst at Merrill Lynch in Tokyo.

## European government bonds

# Prospects for Emu put spotlight on Ecu

Volatility in European government bond markets and the increasing profile that European monetary union, or Emu, has assumed in European politics has turned the spotlight on the Ecu market.

Some investment houses are suggesting that it offers unrivalled value for the investor willing to take a view on Emu. Others, however, are less enthusiastic.

"The Ecu bond market is the most attractive vehicle for investors to position themselves for Emu," said Mr Jonathan Davies at UBS in Paris.

Mr Davies calculates that in the "best Emu scenario" – in which at Emu the Ecu currency assumes the same qualities as the current D-Mark and as a result Ecu interest rates converge with those on the D-Mark – yields on Ecu bonds could fall by as much as 40 basis points.

Mr Garry Jones, senior bond strategist at Paribas in London, thinks people do not properly understand the consequences of Emu on the Ecu bond market. "Whether or not there is monetary union, there is still value in the Ecu bond market," he said.

He points to three possible scenarios: monetary union in 1997; Emu by 1999; or an abandonment of Emu altogether.

In the first two scenarios, those European countries which meet the Maastricht criteria with low inflation and low debt – including, he thinks, Germany, France, the Netherlands, Luxembourg, Austria and possibly Ireland – would move to a single Ecu currency, with existing Ecu converted to new Ecu in a ratio of one-to-one.

Because the new currency would take on the attributes of the former core currencies and exclude the weaker European currencies, "the value of the Ecu bond would be considerably higher than its current worth," said Mr Jones.

"The Ecu bond market would outperform other bond markets and there would be a bonanza for holders of Ecu bonds. At the moment, however, none of this is priced in to the market and there are still significant spreads above Germany."

The yield on 10-year Ecu bonds is currently around 8.4 per cent, which represents a risk premium of 100 basis points over German government bonds.

The ability to convert into a new Ecu which has the properties of the core European currencies gives rise to what Mr Jones calls the "Ecu option" – buying the undervalued Ecu in 1995 will provide the investor with the opportunity to convert it into a much more highly-valued Ecu when, or if, Emu finally takes place.

However, even in the third scenario, in which Emu is abandoned altogether, Ecu bonds offer value, say some analysts.

"Even without Emu, they are undervalued – because there is a lack of understanding about the mechanisms of the Ecu market and because we have been in a general bear market and Ecu tends to underperform in a bear market," said Mr Jones.

Another important factor is the Ecu currency, which many think is undervalued against its theoretical level.

But not everybody is as convinced that the Ecu bond market has such bright prospects. Some think its fate depends crucially on the success of Emu.

"There are risks in buying the Ecu market," said one London-based fund manager. "If the Emu process breaks down then the Ecu bond market could suffer, with liquidity drying up and spreads widening as governments stop issuing in Ecu."

Others doubt whether there is sufficient demand for Ecu bonds. "There is no underlying domestic market, with no natural investor base," said a leading eurobond trader. "Only governments and large institutions buy Ecu bonds in any volume, and they are often investing for political as well as commercial reasons."

He also points out that many investment fund managers avoid the Ecu market precisely because the Ecu is an index of several currencies.

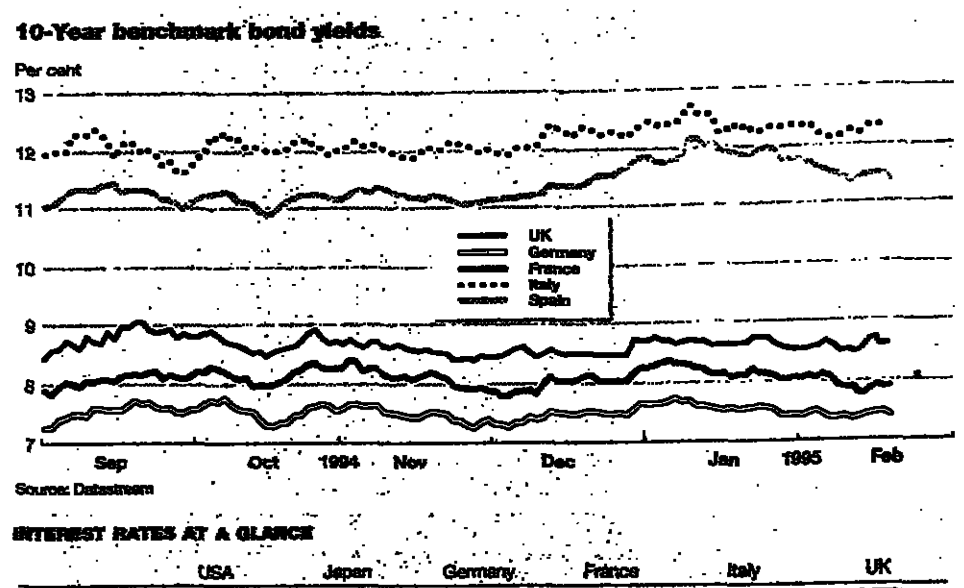
"Most fund managers will not buy Ecu because it is difficult to justify buying what is in effect an index when it is their job as fund managers to outperform the index," he said.

In addition, "the Ecu is not in any significant indices against which institutional investors are measured and so there is no natural reason why they should look at the Ecu bond market", an Ecu specialist at Goldman Sachs said.

However, he pointed out that "now, with an increasing political move towards Emu, many institutional investors are beginning to focus on this market. The implications of Emu are positive for the Ecu bond market and when people realise this they will be much more aggressive buyers of these bonds, which are currently very cheap to their theoretical levels."

Mr John Hall, of SBC in London, said: "For long-term investors prepared to hold bonds until maturity, Ecu bonds no doubt offer value, but few investors are prepared to do that any longer. They are now more prudent and cautious and want to trade on a short-term basis."

**Graham Bowley**




**INTEREST RATES AT A GLANCE**

| | USA | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| Discount | 4.75 | 1.75 | 4.50 | 8.40[1] | 7.50 | 6.75[2] |
| Overnight | 5.88 | 2.19 | 4.88 | 5.25 | 7.93 | 6.83 |
| Three month | 5.87 | 2.21 | 4.93 | 5.68 | 8.75 | 7.72 |
| One year | 6.62 | 2.37 | 5.58 | 6.56 | 10.06 | 7.75 |
| Five year | 7.32 | 3.83 | 6.86 | 7.71 | 12.27 | 8.53 |
| Ten year | 7.42 | 4.50 | 7.40 | 7.99 | 12.39 | 8.62 |

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

**US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 102-24 | 102-17 | -0-06 | 102-24 | 102-10 | 521,658 | 343,462 |
| Jun | 102-07 | 102-01 | -0-05 | 102-07 | 101-26 | 17,527 | 48,532 |
| Sep | 101-21 | 101-21 | -0-05 | 101-23 | 101-16 | 1,662 | 8,189 |



## Syndicated loans

# Borrowers cash in on falling margins

The $600m five-year loan for Greece was launched into general syndication on Friday, and to judge by recent moves in the market for international credits, banks will rush to take part.

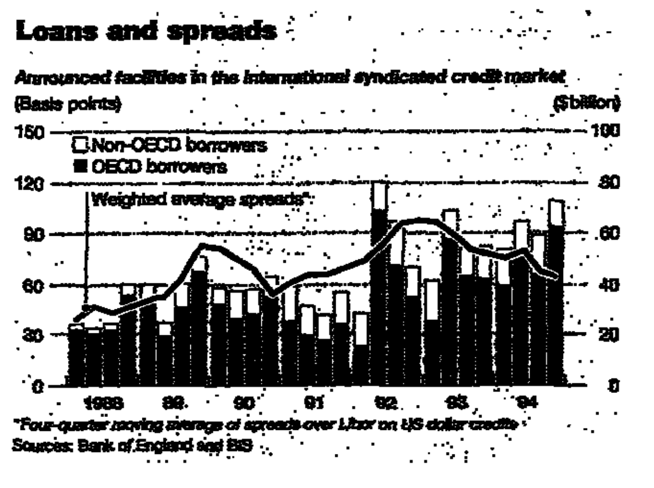
Greece is the latest sovereign borrower to tap into the vast amounts of capital international banks are anxious to lend. Spain, Sweden, Portugal and Italy have all raised jumbo loans in the international credits market within the past few months. Turkey met international bankers in London in January to discuss a loan.

These sovereign borrowers have been presented with uniquely cheap funds by a coincidence of factors.

Banks have rebuilt their balance sheets and are competing for assets while companies remain wary of debt. This imbalance of supply and demand has led to margins falling by up to 50 per cent in the past year, particularly for sovereign loans that are zero-weighted, meaning banks need not put capital against them.

While margins have been falling, a floor may have been reached with the loan for Portugal, which carried a margin of 7.75 basis points over Libor.

At least one bank declined to join the underwriting group because the margin was so fine, and better terms could be obtained on exposure to Portuguese borrowers elsewhere.




This fall in pricing has been highlighted by the Bank for International Settlements, in its latest quarterly report on financial market trends*.

It charts the fall in margins and the rise in the amount of money lent. The total of announced international syndicated credits was $250.4bn for 1994, up from $220.9bn in 1993.

This compares with $273.9bn of straight fixed-rate bonds announced in 1994, a fall from $351.9bn in 1993. While the amount of fixed-rate bonds fell, syndicated loans rose.

Perhaps more significantly, the total of all loans announced in the fourth quarter of 1994 was $72.8bn, with the amount of fixed-rate bonds announced in the fourth quarter merely a whisker ahead at $73.3bn.

The BIS put the rise in loans down to the "unsettled interest rate environment", which with "the customised nature of credits and the reduction in lending spreads led many borrowers to prefer bank loans ... over bond issuance".

It said: "This was especially true for borrowers with a high debt burden, or, as is the case in merger and acquisition financing, in areas where a high degree of flexibility is required."

One recent example of M&A financing by loans is the move by Glaxo to buy Wellcome, its fellow UK-based drugs group. It raised £8.1bn at just 20 basis points over Libor.

On the other side of the world, BTR Nylex, the Australian arm of BTR, the UK conglomerate, last week mandated UBS in Hong Kong to raise a US$600m loan to fund its purchase of FM Holdings, the world's biggest producer of high-pressure decorative laminates.

Mr Jonathan Macdonald, UBS head of syndications in Hong Kong said: "Even at times when bond markets have provided the cheapest source of long-term financing for corporates, syndicated loans have provided the quickest and most flexible means to bridge large amounts in meeting acquisition funding deadlines."

Mr Macdonald's colleagues at UBS in London held a reception on Thursday evening for the London-based syndicated loan fraternity.

The atmosphere was bubbly, perhaps only partly due to the champagne. For the BIS report said that while the amount of international loans raised in the US fell from $88.1bn to $72.2bn, the amount of international loans sourced out of London doubled in 1994, from $17bn to $34.1bn. There was plenty to celebrate.

**International Banking and Financial Market Developments, by the Bank for International Settlements, Basle*

**Martin Brice**

**NEW INTERNATIONAL BOND ISSUES**

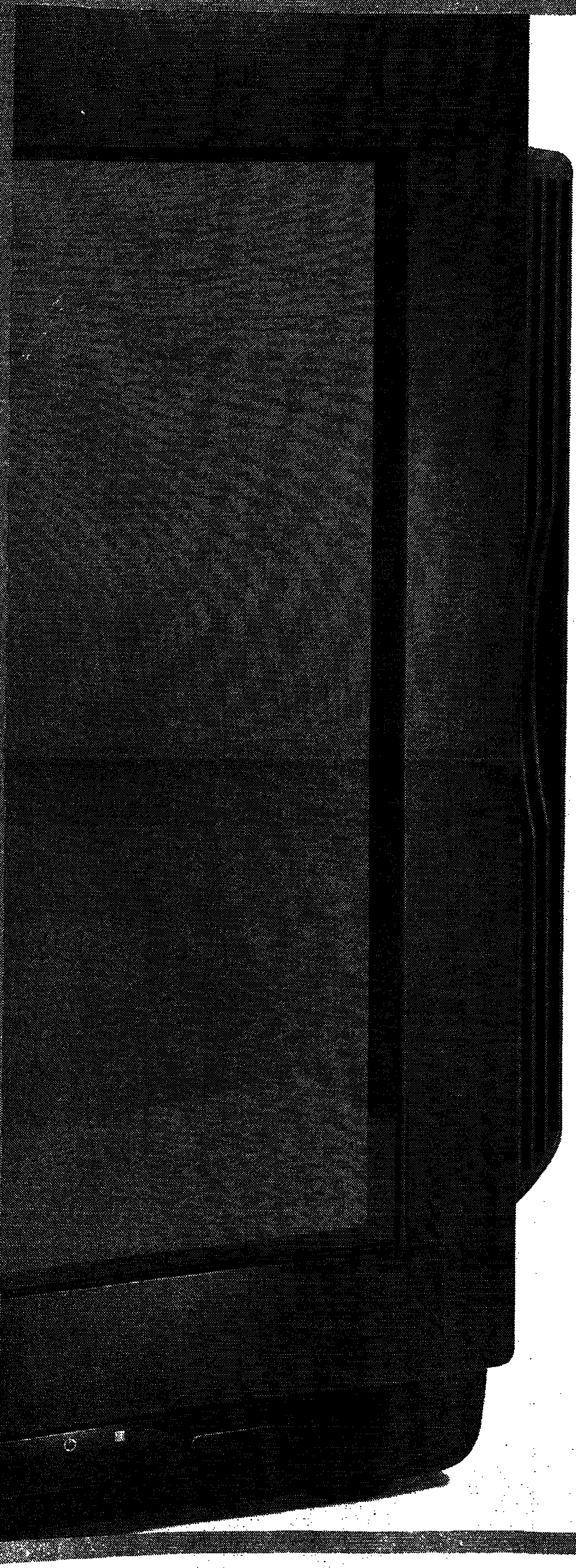
| Borrower | Amount m. | Maturity | Coupon % | Price | Yield % | Launch spread bp | Book runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Dowa Mining(a)◊ | 100 | Mar.1999 | 4.25 | 100.00 | - | - | IBJ International |
| Federal Natl.Mortgage Assoc. | 500 | Feb.2005 | 7.875‡ | 99.932R | 7.885 | +27(7½%-05) | JP Morgan Securities |
| National Bank of Canada‡ | 200 | Mar.1998 | (b) | 99.90R | - | - | UBS |
| GECC | 200 | Mar.1997 | 7.625 | 100.068R | 7.577 | +15(7½%-97) | BZW |
| PepsiCo | 200 | Feb.1997 | 7.75 | 100.09R | 7.700 | +25(7½%-97) | IBJ International |
| Rabobank Nederland(c) | 100 | Nov.1998 | 7.50 | 99.326R | 7.697 | +8(7¼%-98) | PaineWebber |
| Student Loan Mktg. Assoc. | 500 | Mar.2000 | 7.50§ | 99.41 | 7.644 | +19(7¾%-00) | Nomura International |
| Volvo Group Finance Europe‡ | 125 | Mar.2001 | (m) | 100.00 | - | - | CS First Boston |
| SCCMT 95-4(q)‡ | 1bn | Feb.1998 | (q1) | 100.00R | - | - | Merrill Lynch Intl. |
| Bankers Trust NY Corp.(u)‡ | 300 | Mar.2000 | (u1) | 99.857R | - | - | Merrill Lynch Intl. |
| **YEN** | | | | | | | |
| Sumitomo Corp.Cap.Neth.(f)‡ | 10bn | Aug.1997 | (i) | 100.20 | - | - | Sanwa International |
| Asahi Finance(Cayman)(e)★‡ | 25bn | May.2005 | (e1,g) | 100.00 | - | - | Salomon Brothers Intl. |
| Merrill Lynch & Co., T1(s)★ | 5bn | Jun.1999 | 4.22 | 100.275R | - | - | Merrill Lynch Intl. |
| Merrill Lynch & Co., T2(s)★ | 15bn | Jan.2002 | 5.05 | 100.375R | - | - | Merrill Lynch Intl. |
| Province of Quebec★ | 30bn | Mar.1998 | 3.55 | 99.99 | 3.554 | - | Yamaichi Intl.(Europe) |
| Heller Financial(s)★ | 10bn | Jun.2000 | 4.50 | 100.40R | - | - | Merrill Lynch Intl. |
| **STERLING** | | | | | | | |
| Bradford & Bingley B/S(o)‡ | 100 | Mar.2001 | (o1) | 99.88R | - | - | CS First Boston |
| **D-MARKS** | | | | | | | |
| Baden-Württemberg L-Finance | 1bn | Mar.2000 | 7.00 | 99.505R | 7.121 | +18(7%-99) | Deutsche /SBC Frt. |
| Ford Credit Europe | 200 | Mar.2000 | 7.25 | 101.879 | 6.794 | - | DG Bank |
| Luebecker Hypo.(d)‡ | 100 | Jan.2000 | (f) | 100.17 | - | - | Deutsche Bank |
| **FRENCH FRANCS** | | | | | | | |
| Argentaria Global Finance | 1.5bn | Mar.1998 | 7.50 | 99.869R | 7.620 | +30(8.7%-97) | JP Morgan Securities |
| Eurofima(l) | 1.3bn | Mar.2005 | (f1) | 100.00R | - | - | CDC/ Banque Paribas |
| European Investment Bank(p) | 750 | Mar.2005 | (p1) | 100.00R | - | - | BNP/ JP Morgan & Co. |
| **SWISS FRANCS** | | | | | | | |
| City of Copenhagen | 100 | Mar.2002 | 5.375 | 102.80 | 4.927 | - | Banque Paribas(Suisse) |
| DSL Finance | 100 | Mar.2001 | 5.375 | 102.85 | 4.817 | - | Bank von Ernst & Cie. |

| Borrower | Amount m. | Maturity | Coupon % | Price | Yield % | Launch spread bp | Book runner |
|---|---|---|---|---|---|---|---|
| **ITALIAN LIRE** | | | | | | | |
| World Bank | 350bn | Mar.1998 | 10.625 | 101.115 | 10.18 | - | BNL/Cariplo/SBC |
| Helaba Finance | 200bn | Mar.1998 | 11.00 | 101.29 | 10.48 | - | Banca Roma/C.Italiano |
| BECC(g) | 100bn | Feb.1998 | 11.05 | 101.483 | 10.41 | - | JP Morgan Securities |
| Abbey Natl.Treas.Services(l) | 200bn | Apr.1997 | 11.00 | 101.065 | - | - | Credito Italiano |
| **LUXEMBOURG FRANCS** | | | | | | | |
| GE Capital Canada(l) | 2bn | Jun.2000 | 7.75 | 102.05 | 7.25 | - | BGL/ Bq. Paribas Lux. |
| Republic of Ireland(j) | 2bn | Jun.1998 | 7.75 | 102.45 | 6.85 | - | BCEE |
| Bank Anhyp Luxembourg(l) | 2bn | Aug.2000 | 8.00 | 102.60 | 7.377 | - | BCEE |
| Rabobank Nederland | 3bn | Jul.2001 | zero | 63.65 | 7.498 | - | BGL |
| Kingdom of Denmark | 5bn | Apr.2003 | zero | 55.50 | 7.637 | - | Crédit Européen |
| Bacob Overseas(l,l) | 2bn | Jun.1999 | 8.00 | 102.75 | 7.20 | - | Bacob Bank Lux. |
| **ECUS** | | | | | | | |
| Kingdom of Denmark(h) | 500 | Mar.1996 | 6.75 | 99.949R | 6.804 | +5(8%-96) | CCF |
| GECC(l) | 50 | Nov.1998 | 8.00 | 100.22R | 7.909 | - | UBS |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| SBAB | 200 | May.1997 | zero | 81.94 | 9.292 | - | Daiwa Europe |
| **PESETAS** | | | | | | | |
| European Investment Bank | 15bn | Mar.2000 | 11.25 | 101.21 | 10.92 | - | BNA |
| **ESCUDOS** | | | | | | | |
| Merrill Lynch & Co.‡ | 11.4bn | Mar.2002 | (k) | 100.00 | - | - | Banco Finantia |
| European Investment Bank‡ | 30bn | Mar.2005 | (n) | 100.25 | - | - | Banco Essi/ BPV CGD |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. ‖Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: $10,000 +2 wrts. Ex.price: Y502. FX: 99.65Y/$. b) 3-mth Libor +10bp. c) Fungible with $250m. Plus 92 days accrued. d) 3-mth Libor +25bp; max 3% to 26/5/96 and 3½% thereafter. e) Callable on coupon dates from 31/5/00 at par. e1) 5% to 31/5/00 and 5.1% thereafter. f) Callable on 14/3/00 at par. f1) 8.04% to 14/3/00 and 8.41% thereafter. g) Fungible with L150bn. Plus 33 days accrued. h) Spread relates to UK Ecu bond. i) Over interpolated yield. j) Fungible with Ecu100bn. Plus 105 days accrued. k) 6-mth Libor +35bp. l) Long 1st coupon. m) 3-mth Libor +30bp. n) 3-mth Libor -15bp. o) Callable on any coupon date from Mar.2000 at par. o1) 3-mth Libor +¼%. p) Callable on 15/3/98 at par. p1) 7.66% to 15/3/98 and 6.65% thereafter. q) Standard Credit Card Master Trust. Legal maturity: 15/2/00. $34m subordinated class via Citibank. q1) 3-mth Libor +10bp. r) 6-mth Libor flat. s) Short 1st coupon. t) Issue launched 26/1/95 was increased to LFr8bn. u) Callable on any coupon date from Mar.97 at par. u1) 3-mth Libor +20bp. Note: Yields are calculated on ISMA basis.

هكذا من الاصل





# WORLD STOCK MARKETS

## INDICES

| | Feb 17 | Feb 16 | Feb 15 | 1994/5 High | | 1994/5 Low | |
|---|---|---|---|---|---|---|---|
| **Argentina** | | | | | | | |
| General (29/12/77) | 12763.57 | 12185.81 | 13015.00 | 25470.40 | 16/2/94 | 12185.81 | 16/2/95 |
| **Australia** | | | | | | | |
| All Ordinaries(1/1/80) | 1856.2 | 1860.2 | 1842.9 | 2340.60 | 3/2/94 | 1823.30 | 8/2/95 |
| All Mining(1/1/80) | 819.6 | 821.1 | 814.1 | 1136.10 | 3/2/94 | 795.30 | 8/2/95 |
| **Austria** | | | | | | | |
| Credit Aktien(30/12/84) | 366.49 | 362.60 | 365.64 | 460.66 | 2/2/94 | 361.34 | 3/2/95 |
| Traded Index(2/1/91) | 990.42 | 976.71 | 985.47 | 1222.25 | 1/2/94 | 968.30 | 3/2/95 |
| **Belgium** | | | | | | | |
| BEL20 (1/1/91) | 1350.48 | 1350.52 | 1358.55 | 1542.65 | 9/2/94 | 1336.39 | 7/10/94 |
| **Brazil** | | | | | | | |
| Bovespa (29/12/83) | 30233.0 | 28639.0 | 30694.0 | 55110.00 | 13/9/94 | 3800.90 | 3/1/94 |
| **Canada** | | | | | | | |
| Metals Mins♦(1975) | 3926.80 | 3941.38 | 3953.25 | 4326.07 | 18/1/95 | 3299.86 | 20/4/94 |
| Composite♦ (1975) | 4101.20 | 4098.70 | 4125.30 | 4609.90 | 23/3/94 | 3959.90 | 24/6/94 |
| Portfolio§§ (4/1/83) | 2024.02 | 2022.49 | 2028.75 | 2182.69 | 1/2/94 | 1868.48 | 28/6/94 |
| **Chile** | | | | | | | |
| IPGA Gen (31/12/80) | 5190.9 | 5147.7 | 5267.1 | 6764.40 | 21/11/94 | 3801.20 | 4/4/94 |
| **Denmark** | | | | | | | |
| CopenhagenSE(3/1/83) | 354.24 | 355.16 | 355.46 | 415.79 | 2/2/94 | 336.66 | 30/12/94 |
| **Finland** | | | | | | | |
| HEX General(28/12/90) | 1799.7 | 1822.6 | 1833.6 | 1972.00 | 4/2/94 | 1601.10 | 3/1/94 |
| **France** | | | | | | | |
| SBF 250 (31/12/90) | 1210.10 | 1216.19 | 1228.98 | 1585.20 | 2/2/94 | 1178.82 | 23/1/95 |
| CAC 40(31/12/87) | 1822.47 | 1835.00 | 1861.90 | 2355.93 | 2/2/94 | 1772.84 | 23/1/95 |
| **Germany** | | | | | | | |
| FAZ Aktien(31/12/58) | 787.05 | 795.81 | 795.42 | 859.27 | 18/5/94 | 742.04 | 5/10/94 |
| Commerzbank(1/12/53) | 2242.9 | 2269.0 | 2267.70 | 2485.50 | 2/5/94 | 2118.30 | 5/10/94 |
| DAX (30/12/87)‡ | 2117.03 | 2115.72 | 2135.04 | 2271.11 | 16/5/94 | 1960.59 | 7/10/94 |
| **Greece** | | | | | | | |
| Athens SE(31/12/80) | 833.12 | 835.34 | 845.48 | 1194.58 | 18/1/94 | 789.22 | 8/2/95 |
| **Hong Kong** | | | | | | | |
| Hang Seng(31/7/64) | 8043.01 | 8133.34 | 8103.14 | 12201.09 | 4/1/94 | 6967.93 | 23/1/95 |
| **India** | | | | | | | |
| BSE Sens.(1979) | 3383.69 | 3409.69 | 3485.14 | 4628.57 | 12/9/94 | 3383.69 | 17/2/95 |
| **Indonesia** | | | | | | | |
| Jakarta Comp.(10/8/82) | 453.14 | 455.59 | 456.45 | 612.89 | 5/1/94 | 432.98 | 25/1/95 |
| **Ireland** | | | | | | | |
| ISEQ Overall(4/1/88) | 1896.55 | 1894.19 | 1890.21 | 2082.16 | 30/1/94 | 1694.14 | 1/7/94 |
| **Italy** | | | | | | | |
| Banca Comm Ital (1972) | 665.90 | 658.05 | 672.97 | 817.17 | 10/5/94 | 581.64 | 13/12/94 |
| MIB General (2/1/95) | 1036.0 | 1041.0 | 1064.0 | 1076.00 | 10/2/95 | 976.00 | 10/1/95 |
| **Japan** | | | | | | | |
| Nikkei 225 (16/5/49) | 18020.51 | 17780.59 | 17891.00 | 21552.81 | 13/6/94 | 17369.74 | 4/1/94 |
| Nikkei 300 (1/10/82) | 257.09 | 253.71 | 256.17 | 311.71 | 13/6/94 | 253.71 | 16/2/95 |
| Topix (4/1/68) | 1400.61 | 1384.17 | 1396.65 | 1712.73 | 13/6/94 | 1384.17 | 16/2/95 |
| 2nd Section (4/1/68) | 1809.84 | 1805.98 | 1822.42 | 2542.66 | 6/7/94 | 1805.98 | 16/2/95 |
| **Malaysia** | | | | | | | |
| KLSE Comp.(4/4/86) | 995.24 | 989.99 | 979.28 | 1314.46 | 5/1/94 | 840.67 | 24/1/95 |
| **Mexico** | | | | | | | |
| IPC (Nov 1978) | (u) | 1831.50 | 1798.00 | 2881.17 | 8/2/94 | 1798.00 | 16/2/95 |
| **Netherland** | | | | | | | |
| CBS TtlRtnGen(End 83) | 443.4 | 442.3 | 444.9 | 454.80 | 31/1/94 | 408.30 | 21/6/94 |
| CBS All Shr (End 83) | 278.2 | 277.5 | 279.1 | 294.80 | 31/1/94 | 257.80 | 21/6/94 |
| **New Zealand** | | | | | | | |
| Cap. 40 (1/7/86) | 1998.73 | 1988.21 | 1967.97 | 2439.64 | 3/2/94 | 1876.09 | 12/12/94 |
| **Norway** | | | | | | | |
| Oslo SE(Ind)(2/1/83) | 1121.92 | 1120.78 | 1127.36 | 1211.18 | 28/2/94 | 980.91 | 21/6/94 |
| **Philippines** | | | | | | | |
| Manila Comp (2/1/85) | 2609.76 | 2632.98† | 2620.68 | 3308.37 | 4/1/94 | 2374.86 | 24/1/95 |
| **Portugal** | | | | | | | |
| BTA (1977) | 2768.5 | 2766.5 | 2773.1 | 3226.60 | 18/2/94 | 2812.80 | 20/6/94 |
| **Singapore** | | | | | | | |
| SES All-S'pore(2/4/75) | 511.77 | 512.81 | 511.58 | 641.61 | 4/1/94 | 472.98 | 23/1/95 |
| **South Africa** | | | | | | | |
| JSE Gold (28/9/78) | 1563.0♥ | 1583.0 | 1619.5 | 2534.00 | 7/9/94 | 1465.28 | 30/1/95 |
| JSE Ind. (28/9/78) | 6295.2♥ | 6310.9 | 6345.3 | 6984.40 | 30/12/94 | 5446.00 | 19/1/94 |
| **South Korea** | | | | | | | |
| KoreaCmpEx(4/1/80)** | 910.22 | 923.49 | 926.09 | 1138.75 | 8/11/94 | 858.37 | 2/4/94 |
| **Spain** | | | | | | | |
| Madrid SE (30/12/85) | 284.24 | 285.30 | 288.29 | 358.31 | 31/1/94 | 276.36 | 11/1/95 |
| **Sweden** | | | | | | | |
| AffarsvardnGen (1/2/37) | 1531.8 | 1544.5 | 1558.7 | 1603.90 | 31/1/94 | 1334.70 | 6/7/94 |
| **Switzerland** | | | | | | | |
| Swiss Bk. Ind (31/12/58) | 1240.80 | 1249.32 | 1255.63 | 1423.34 | 31/1/94 | 1138.72 | 27/10/94 |
| SBC General (1/4/87) | 914.73 | 920.57 | 925.11 | 1093.29 | 31/1/94 | 876.57 | 27/10/94 |
| **Taiwan** | | | | | | | |
| WeightedPr.(30/6/66)** | 6646.25 | 6646.55 | 6576.25 | 7191.13 | 1/11/94 | 5194.63 | 19/3/94 |
| **Thailand** | | | | | | | |
| Bangkok SET (30/4/75) | 1304.27 | 1308.22 | 1286.43 | 1753.73 | 4/1/94 | 1191.28 | 23/1/95 |
| **Turkey** | | | | | | | |
| Istanbul Cmp.(Jan 1986) | 28214.1 | 27978.6 | 27703.6 | 29145.18 | 2/12/94 | 12980.78 | 24/3/94 |
| **WORLD** | | | | | | | |
| MS Capital Int (1/1/70)$ | (u) | 614.5♥ | 615.6♥ | 649.90 | 2/11/94 | 591.60 | 1/11/94 |
| **CROSS-BORDER** | | | | | | | |
| Eurotrack 100(26/10/90) | 1322.06 | 1329.52 | 1343.63 | 1540.18 | 31/1/94 | 1286.48 | 5/10/94 |
| Euro Top-100 (26/6/90) | 1171.93 | 1176.87 | 1190.07 | 1311.01 | 2/2/94 | 1138.46 | 5/10/94 |
| JCapsIOrgns (31/12/88) | (u) | 296.86 | 295.14 | 385.19 | 5/1/94 | 281.46 | 23/1/95 |
| Barings Emerg.(7/1/92) | 132.36 | 133.79 | 136.35 | 191.79 | 26/9/94 | 132.36 | 17/2/95 |

## INDEX FUTURES

| | Open | Sett Price | Change | High | Low | Est. vol. | Open Int. |
|---|---|---|---|---|---|---|---|
| **CAC-40** | | | | | | | |
| Feb | 1833.0 | 1832.0 | -11.0 | 1840.0 | 1825.0 | 19,810 | 28,326 |
| Mar | 1840.5 | 1839.5 | -11.0 | 1846.5 | 1833.0 | 640 | 23,445 |
| **DAX** | | | | | | | |
| Mar | 2110.5 | 2124.0 | -3.0 | 2135.0 | 2107.0 | 19,376 | N/A |
| Jun | 2128.5 | 2144.0 | -4.5 | 2150.0 | 2127.5 | 448 1 | N/A |
| **OMX** | | | | | | | |
| Feb | 1174.25 | 1171.00 | -19.0 | 1181.75 | 1167.00 | 4,732 | 18,200 |
| Mar | 1182.50 | 1177.00 | -19.75 | 1188.50 | 1174.00 | 1,569 | 8,078 |
| **SOFFEX** | | | | | | | |
| Feb | 2610.0 | 2598.2 | -19.0 | 2612.0 | 2592.0 | 2,997 | 7,293 |
| Mar | 2623.0 | 2615.0 | -9.00 | 2623.0 | 2600.5 | 7,364 | 12,251 |
| **S&P 500** | | | | | | | |
| Mar | 486.30 | 484.45 | -1.85 | 486.30 | 483.90 | 72,265 | 196,493 |
| Jun | 489.90 | 488.40 | -1.85 | 489.90 | 487.90 | 1,941 | 19,518 |
| **Nikkei 225** | | | | | | | |
| Mar | 17720.0 | 18080.0 | +180.0 | 18250.0 | 17700.0 | 40,105 | 128,749 |
| Jun | 17750.0 | 18130.0 | +200.0 | 18260.0 | 17750.0 | 7,325 | 30,518 |

Open Interest figures for previous day.

** Sat Feb 11: Taiwan Weighted Price 6685.24; Korea Comp Ex 953.71. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Feb 17 – 2119.26 +7.23.

## US INDICES

| Dow Jones | Feb 17 | Feb 16 | Feb 15 | 1994/5 High | 1994/5 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 3953.54 | 3987.52 | 3986.17 | 3987.52 (16/2/95) | 3593.35 (4/4/94) | 3987.52 (16/2/95) | 41.22 (2/7/32) |
| Home Bonds | 96.43 | 96.00 | 95.81 | 105.61 (21/1/94) | 93.56 (30/12/94) | 109.77 (18/10/93) | 54.99 (1/10/81) |
| Transport | 1568.81 | 1571.94 | 1575.66 | 1862.29 (2/2/94) | 1371.89 (13/12/94) | 1862.29 (2/2/94) | 12.32 (8/7/32) |
| Utilities | 193.71 | 194.24 | 193.84 | 227.86 (3/1/94) | 173.94 (22/11/94) | 256.46 (31/8/93) | 10.50 (8/4/32) |

DJ Ind. Day's high 4001.99 (4011.07 ) Low 3937.05 (3948.16 ) (Theoretical♦)
Day's high 3984.16 (3987.52 ) Low 3958.53 (3964.64 ) (Actual♦)

| Standard and Poors | Feb 17 | Feb 16 | Feb 15 | 1994/5 High | 1994/5 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite ‡ | 481.97 | 485.22 | 484.54 | 485.22 (16/2/95) | 438.92 (4/4/94) | 485.22 (16/2/95) | 4.40 (1/6/32) |
| Industrials♥ | 569.59 | 574.05 | 572.70 | 574.05 (17/2/95) | 510.05 (21/4/94) | 574.05 (17/2/95) | 3.62 (21/6/82) |
| Financial | 45.52 | 45.67 | 45.76 | 48.94 (14/6/94) | 39.87 (22/11/94) | 48.40 (28/9/93) | 8.64 (1/10/74) |
| NYSE Comp. | 261.83 | 263.27 | 263.19 | 267.71 (2/2/94) | 243.14 (4/4/94) | 267.71 (2/2/94) | 4.46 (25/4/42) |
| Amex Mkt Val | 447.80 | 447.88 | 449.35 | 487.89 (2/2/94) | 420.23 (13/12/94) | 487.89 (2/2/94) | 29.31 (9/12/72) |
| NASDAQ Cmp | 786.96 | 793.31 | 795.63 | 803.93 (18/3/94) | 693.79 (24/6/94) | 803.93 (18/3/94) | 54.87 (31/10/72) |

### RATIOS

| | Feb 10 | Feb 3 | Jan 27 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 2.72 | 2.73 | 2.79 | 2.58 |
| | Feb 15 | Feb 8 | Feb 1 | Year ago |
| S & P Ind. Div. yield | 2.36 | 2.35 | 2.42 | 2.38 |
| S & P Ind. P/E ratio | 19.57 | 19.38 | 18.96 | 29.09 |

### NEW YORK ACTIVE STOCKS

| Friday | Stocks traded | Close price | Change on day |
|---|---|---|---|
| Motorola | 19,887,500 | 57⅝ | –6⅝ |
| RJ Nabisco | 10,261,600 | 5½ | –⅛ |
| Telefonos | 9,182,300 | 30½ | — |
| Merck | 6,282,800 | 41⅜ | +⅞ |
| AT&T | 4,250,300 | 50¼ | –⅛ |
| Gen Electric | 4,199,200 | 53¾ | –¾ |
| Philip Morris | 3,873,300 | 60¾ | –1½ |
| Sears Roe | 3,514,000 | 47½ | +¾ |
| Wal Mart | 3,302,500 | 23⅝ | –⅜ |
| Coca Cola | 3,241,800 | 53⅝ | –½ |

### TRADING ACTIVITY

| Volume (million) | Feb 17 | Feb 16 | Feb 15 |
|---|---|---|---|
| New York SE | 347.923 | 380.984 | 377.942 |
| Amex | 14.033 | 17.882 | 17.167 |
| NASDAQ | (u) | 322.982 | 360.072 |
| **NYSE** | | | |
| Issues Traded | 2,948 | 2,964 | 2,961 |
| Rises | 911 | 870 | 1,481 |
| Falls | 1,220 | 1,335 | 743 |
| Unchanged | 815 | 759 | 737 |
| New Highs | 42 | 59 | 99 |
| New Lows | 39 | 72 | 57 |

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

### TOKYO – MOST ACTIVE STOCKS: Friday, February 17, 1995.

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Sumitomo Const | 8.2m | 733 | -1 |
| Fudo Const | 7.8m | 1090 | -10 |
| Toshiba Corp | 7.3m | 615 | +10 |
| Hitachi | 7.2m | 848 | +34 |
| Nippon Steel | 6.5m | 339 | +9 |
| Matsushita E Ind | 6.4m | 1,320 | +20 |
| Mitsubishi Heavy | 6.4m | 617 | +15 |
| Penta Ocean | 5.8m | 781 | +5 |
| NKK Corp | 5.0m | 247 | -1 |
| NEC Corp | 3.6m | 914 | +22 |

صكتا من الاهل



# CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

| Feb 17 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 16.4808 | -0.0636 | 739 - 876 | 16.5850 | 16.4508 | 16.4683 | 0.9 | 16.4346 | 1.1 | - | - | 106.8 |
| Belgium | (BFr) | 48.2744 | -0.1198 | 479 - 009 | 48.5000 | 48.1180 | 48.2244 | 1.2 | 48.1094 | 1.4 | 47.5694 | 1.5 | 108.1 |
| Denmark | (DKr) | 9.2510 | -0.0263 | 446 - 574 | 9.2902 | 9.2277 | 9.2463 | 0.6 | 9.2347 | 0.7 | 9.1748 | 0.8 | 107.3 |
| Finland | (FM) | 7.2861 | -0.007 | 805 - 916 | 7.3570 | 7.2690 | - | - | - | - | - | - | 84.8 |
| France | (FFr) | 8.1618 | -0.0098 | 582 - 653 | 8.1867 | 8.1258 | 8.1551 | 1.0 | 8.1444 | 0.9 | 8.0808 | 1.0 | 107.9 |
| Germany | (DM) | 2.3463 | -0.0043 | 453 - 473 | 2.3545 | 2.3389 | 2.3436 | 1.4 | 2.3364 | 1.7 | 2.301 | 1.9 | 110.3 |
| Greece | (Dr) | 368.481 | -1.193 | 084 - 878 | 370.743 | 367.545 | - | - | - | - | - | - | 69.2 |
| Ireland | (I£) | 1.0072 | +0.0014 | 065 - 079 | 1.0088 | 1.0026 | 1.0066 | 0.7 | 1.0059 | 0.5 | 1.0043 | 0.3 | 96.8 |
| Italy | (L) | 2534.88 | +9.32 | 333 - 643 | 2550.27 | 2527.57 | 2538.73 | -1.8 | 2549.23 | -2.3 | 2597.93 | -2.5 | 72.4 |
| Luxembourg | (LFr) | 48.2744 | -0.1198 | 479 - 009 | 48.5000 | 48.1180 | 48.2244 | 1.2 | 48.1094 | 1.4 | 47.5694 | 1.5 | 108.1 |
| Netherlands | (Fl) | 2.6307 | -0.0069 | 294 - 320 | 2.6418 | 2.6172 | 2.6275 | 1.4 | 2.6204 | 1.6 | 2.5815 | 1.9 | 107.9 |
| Norway | (NKr) | 10.3161 | +0.0075 | 122 - 199 | 10.3673 | 10.2658 | 10.3148 | 0.2 | 10.313 | 0.1 | 10.3007 | 0.1 | 96.6 |
| Portugal | (Es) | 242.960 | -0.291 | 847 - 112 | 243.711 | 242.064 | 243.56 | -3.0 | 246.23 | -3.7 | - | - | 95.9 |
| Spain | (Pta) | 204.272 | +0.989 | 163 - 380 | 205.040 | 202.963 | 204.582 | -1.8 | 205.302 | -2.0 | 208.802 | -2.2 | 79.2 |
| Sweden | (SKr) | 11.5777 | -0.0086 | 672 - 881 | 11.6584 | 11.4914 | 11.583 | -0.5 | 11.6192 | -1.4 | 11.7047 | -1.1 | 80.7 |
| Switzerland | (SFr) | 1.9840 | -0.001 | 830 - 850 | 1.9912 | 1.9757 | 1.9795 | 2.7 | 1.9703 | 2.8 | 1.9228 | 3.1 | 109.1 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 87.1 |
| Ecu | - | 1.2469 | -0.004 | 461 - 476 | 1.2526 | 1.2436 | 1.2463 | 0.6 | 1.2451 | 0.6 | 1.2374 | 0.8 | - |
| SDR† | - | 0.942718 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.5765 | +0.0009 | 760 - 769 | 1.5875 | 1.5739 | - | - | - | - | - | - | - |
| Brazil | (Cr) | 1.3318 | +0.0008 | 299 - 336 | 1.3445 | 1.3297 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.2195 | +0.003 | 186 - 204 | 2.2446 | 2.2217 | 2.2229 | -1.8 | 2.23 | -1.9 | 2.2416 | -1.0 | 81.3 |
| Mexico | (New Peso) | 9.2278 | -0.4101 | 863 - 692 | 9.6142 | 9.1863 | - | - | - | - | - | - | - |
| USA | ($) | 1.5761 | - | 757 - 764 | 1.5880 | 1.5742 | 1.5765 | 0.5 | 1.5743 | 0.5 | 1.5651 | 0.7 | 94.5 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 2.1375 | +0.0226 | 363 - 387 | 2.1404 | 2.1363 | 2.1393 | -1.0 | 2.1459 | -1.6 | 2.1689 | -1.5 | 84.7 |
| Hong Kong | (HK$) | 12.1837 | - | 802 - 871 | 12.2752 | 12.1698 | 12.1827 | 0.1 | 12.2092 | -0.8 | 12.109 | 0.6 | - |
| India | (Rs) | 49.4368 | +0.0043 | 218 - 517 | 49.8120 | 49.3830 | - | - | - | - | - | - | - |
| Israel | (Shk) | 4.7315 | +0.0058 | 265 - 365 | 4.7520 | 4.7224 | - | - | - | - | - | - | - |
| Japan | (Y) | 153.665 | -0.076 | 552 - 778 | 154.550 | 153.070 | 153.135 | 4.1 | 152 | 4.3 | 146.005 | 5.0 | 150.1 |
| Malaysia | (M$) | 4.0252 | +0.0029 | 235 - 269 | 4.0518 | 4.0205 | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.5011 | +0.0169 | 995 - 026 | 2.5043 | 2.4995 | 2.5051 | -1.9 | 2.5141 | -2.1 | 2.5433 | -1.7 | 97.2 |
| Philippines | (Peso) | 39.6062 | +0.1721 | 186 - 938 | 39.6936 | 39.5186 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 5.9108 | -0.0001 | 092 - 124 | 5.9553 | 5.9039 | - | - | - | - | - | - | - |
| Singapore | (S$) | 2.2904 | +0.0013 | 895 - 913 | 2.3041 | 2.2867 | - | - | - | - | - | - | - |
| S Africa (Com.) | (R) | 5.5812 | -0.001 | 788 - 836 | 5.6144 | 5.5737 | - | - | - | - | - | - | - |
| S Africa (Fin.) | (R) | 6.1309 | -0.0474 | 137 - 480 | 6.1798 | 6.1137 | - | - | - | - | - | - | - |
| South Korea | (Won) | 1252.72 | -0.59 | 237 - 308 | 1262.14 | 1251.33 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 41.5439 | +0.0073 | 276 - 602 | 41.8517 | 41.5022 | - | - | - | - | - | - | - |
| Thailand | (Bt) | 39.3619 | -0.069 | 452 - 785 | 39.6370 | 39.3080 | - | - | - | - | - | - | - |

†SDR rates for Feb 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Feb 17 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P. Morgan Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 10.4570 | -0.04 | 550 - 590 | 10.4686 | 10.3960 | 10.4466 | 1.2 | 10.4245 | 1.2 | 10.306 | 1.4 | 105.8 |
| Belgium | (BFr) | 30.6300 | -0.075 | 200 - 400 | 30.7350 | 30.4270 | 30.6075 | 0.9 | 30.56 | 0.9 | 30.395 | 0.8 | 107.6 |
| Denmark | (DKr) | [illegible] | | | | | | | | | | | |
| Finland | (FM) | [illegible] | | | | | | | | | | | |
| France | (FFr) | [illegible] | | | | | | | | | | | |
| Germany | (DM) | [illegible] | | | | | | | | | | | |
| Greece | (Dr) | [illegible] | | | | | | | | | | | |
| Ireland | (I£) | [illegible] | | | | | | | | | | | |
| Italy | (L) | [illegible] | | | | | | | | | | | |
| Luxembourg | (LFr) | [illegible] | | | | | | | | | | | |
| Netherlands | (Fl) | [illegible] | | | | | | | | | | | |
| Norway | (NKr) | [illegible] | | | | | | | | | | | |
| Portugal | (Es) | [illegible] | | | | | | | | | | | |
| Spain | (Pta) | [illegible] | | | | | | | | | | | |
| Sweden | (SKr) | [illegible] | | | | | | | | | | | |
| Switzerland | (SFr) | [illegible] | | | | | | | | | | | |
| UK | (£) | 1.5761 | | | | | | | | | | | |
| Ecu | | 1.2640 | | | | | | | | | | | |
| SDR† | | 1.48101 | | | | | | | | | | | |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.0003 | | | | | | | | | | | |
| Brazil | (Cr) | 0.8450 | | | | | | | | | | | |
| Canada | (C$) | 1.4083 | | | | | | | | | | | |
| Mexico | (New Peso) | 5.8550 | | | | | | | | | | | |
| USA | ($) | - | | | | | | | | | | | |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.3561 | | | | | | | | | | | |
| Hong Kong | (HK$) | 7.7305 | | | | | | | | | | | |
| India | (Rs) | 31.3675 | | | | | | | | | | | |
| Israel | (Shk) | 3.0021 | | | | | | | | | | | |
| Japan | (Y) | 97.5000 | | | | | | | | | | | |
| Malaysia | (M$) | 2.5540 | | | | | | | | | | | |
| New Zealand | (NZ$) | 1.5868 | | | | | | | | | | | |
| Philippines | (Peso) | 25.1300 | | | | | | | | | | | |
| Saudi Arabia | (SR) | 3.7504 | | | | | | | | | | | |
| Singapore | (S$) | 1.4533 | | | | | | | | | | | |
| S Africa (Com.) | (R) | 3.5413 | | | | | | | | | | | |
| S Africa (Fin.) | (R) | 3.8900 | | | | | | | | | | | |
| South Korea | (Won) | 794.850 | | | | | | | | | | | |
| Taiwan | (T$) | 26.3595 | | | | | | | | | | | |
| Thailand | (Bt) | 24.9750 | | | | | | | | | | | |

†SDR rate for Feb 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Feb 16. Base average 1990=100

## WORLD INTEREST RATES

### MONEY RATES

[illegible]

### CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| Feb 17 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 19.17 | 16.91 | 4.860 | 2.086 | 5250 | 5.449 | 21.36 | 508.2 | 423.0 | 23.97 | 4.110 | 2.072 | 4.587 | 3.265 | 318.2 | 2.581 |
| Denmark | (DKr) | 52.18 | 10 | 8.822 | 2.536 | 1.089 | 2739 | 2.843 | 11.14 | 262.6 | 220.7 | 12.51 | 2.145 | 1.081 | 2.399 | 1.704 | 166.0 | 1.347 |
| France | (FFr) | 59.15 | 11.34 | 10 | 2.875 | 1.234 | 3105 | 3.223 | 12.63 | 297.6 | 250.2 | 14.18 | 2.431 | 1.225 | 2.719 | 1.931 | 188.2 | 1.527 |
| Germany | (DM) | 20.58 | 3.943 | 3.479 | 1 | 0.429 | 1080 | 1.121 | 4.395 | 103.5 | 87.04 | 4.932 | 0.846 | 0.426 | 0.946 | 0.672 | 65.47 | 0.531 |
| Ireland | (I£) | 47.93 | 9.187 | 8.104 | 2.330 | 1 | 2516 | 2.612 | 10.24 | 241.2 | 202.8 | 11.49 | 1.970 | 0.993 | 2.204 | 1.565 | 152.5 | 1.237 |
| Italy | (L) | 1.905 | 0.365 | 0.322 | 0.093 | 0.040 | 100. | 0.104 | 0.407 | 9.586 | 8.058 | 0.457 | 0.078 | 0.039 | 0.088 | 0.062 | 6.062 | 0.049 |
| Netherlands | (Fl) | 18.35 | 3.517 | 3.103 | 0.892 | 0.383 | 963.5 | 1 | 3.920 | 92.38 | 77.64 | 4.399 | 0.754 | 0.380 | 0.844 | 0.599 | 58.40 | 0.474 |
| Norway | (NKr) | 46.82 | 8.973 | 7.916 | 2.275 | 0.977 | 2458 | 2.551 | 10 | 235.6 | 198.1 | 11.22 | 1.924 | 0.970 | 2.152 | 1.529 | 149.0 | 1.209 |
| Portugal | (Es) | 19.67 | 3.809 | 3.360 | 0.966 | 0.415 | 1043 | 1.083 | 4.245 | 100. | 84.07 | 4.763 | 0.817 | 0.412 | 0.914 | 0.649 | 63.24 | 0.513 |
| Spain | (Pta) | 23.64 | 4.530 | 3.997 | 1.149 | 0.493 | 1241 | 1.288 | 5.048 | 119.0 | 100. | 5.666 | 0.972 | 0.490 | 1.087 | 0.772 | 75.22 | 0.610 |
| Sweden | (SKr) | 41.72 | 7.996 | 7.054 | 2.028 | 0.870 | 2190 | 2.273 | 8.911 | 209.9 | 176.5 | 10 | 1.715 | 0.864 | 1.918 | 1.362 | 132.8 | 1.077 |
| Switzerland | (SFr) | 24.33 | 4.663 | 4.113 | 1.182 | 0.508 | 1277 | 1.326 | 5.197 | 122.4 | 102.9 | 5.832 | 1 | 0.504 | 1.118 | 0.794 | 77.42 | 0.628 |
| UK | (£) | 48.27 | 9.251 | 8.161 | 2.346 | 1.007 | 2534 | 2.630 | 10.31 | 242.9 | 204.2 | 11.57 | 1.984 | 1 | 2.219 | 1.576 | 153.6 | 1.246 |
| Canada | (C$) | 21.75 | 4.169 | 3.678 | 1.057 | 0.454 | 1142 | 1.185 | 4.646 | 109.5 | 92.02 | 5.214 | 0.894 | 0.451 | 1 | 0.710 | 69.22 | 0.562 |
| US | ($) | 30.63 | 5.870 | 5.178 | 1.489 | 0.639 | 1608 | 1.669 | 6.542 | 154.1 | 129.6 | 7.341 | 1.259 | 0.635 | 1.408 | 1 | 97.46 | 0.791 |
| Japan | (Y) | 31.43 | 6.023 | 5.313 | 1.527 | 0.656 | 1650 | 1.712 | 6.712 | 158.1 | 132.9 | 7.533 | 1.292 | 0.651 | 1.445 | 1.026 | 100. | 0.811 |
| Ecu | | 38.74 | 7.425 | 6.550 | 1.883 | 0.808 | 2034 | 2.111 | 8.274 | 194.9 | 163.9 | 9.286 | 1.592 | 0.803 | 1.781 | 1.265 | 123.3 | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

## FT GOLD MINES INDEX

| | Feb 17 | % chg since 30/12/94 | Feb 16 | Mkt Cap $bn | % of Gold Mines | Gross div yield % | 52 week High | Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (34) | 1717.50 | -13.1 | 1768.20 | 42.06 | 100.00 | 2.23 | 2337.80 | 1637.91 |
| **Regional Indices** | | | | | | | | |
| Africa (18) | 2646.33 | -17.1 | 2658.23 | 13.61 | 32.35 | 5.20 | 3711.87 | 2304.45 |
| Australasia (7) | 1831.05 | -25.4 | 1864.38 | 4.70 | 11.18 | 0.89 | 2951.49 | 1786.20 |
| North America (11) | 1428.87 | -7.5 | 1403.39 | 23.75 | 56.47 | 0.79 | 1911.21 | 1346.18 |


Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. Predecessor Gold Mines Index: Feb 17 : 199.7; week's change: -4.0 points; Year ago: 217.4.

## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt. cap (£m.) | 1994/95 High | Low | Stock | Close price p | +/- | Net div. | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| §10 | F.P. | 17.1 | 13¼ | 13 | Bath Press | 13 | | - | - | - | - |
| - | F.P. | 26.2 | 55 | 49¾ | Lazard Brla India | 50½ | -1¼ | - | - | - | - |
| - | F.P. | 3.07 | 32½ | 29 | Do Warrants | 29½ | -¼ | - | - | - | - |
| 35 | F.P. | 22.1 | 36 | 34 | MCIT S Cap | 34 | | - | - | - | - |
| 35 | P.P. | 23.4 | 38 | 36 | MCIT S Inc | 36 | | - | - | - | - |
| 100 | F.P. | 40.5 | 94 | 80 | Matheson Lloyds | 81 | | - | - | - | - |
| - | F.P. | 17.0 | 130 | 85 | Pentex Oil | 85 | -5 | - | - | - | - |
| 150 | F.P. | 16.1 | 156 | 150 | Photobition | 156 | | RN6.0 | 2.0 | 4.8 | 11.3 |
| - | F.P. | 4.50 | 11¼ | 10½ | Wessex Trust | 11¼ | | - | - | - | - |
| - | F.P. | 282.1 | 128 | 118 | Woodchester Units | 125 | | - | - | - | - |

## RIGHTS OFFERS

| Issue price p | Amount paid up | Latest Renun. date | 1994/95 High | Low | Stock | Closing price p | +or- |
|---|---|---|---|---|---|---|---|
| 225 | Nil | 27/3 | 28pm | 17pm | BTP | 17pm | -1 |
| 10 | Nil | - | 3¼pm | 3pm | Bath Press | 3pm | |
| - | Nil | 27/2 | 83pm | 65pm | Cadbury Schws Cv Ln | 82pm | +1½ |
| 57 | Nil | 29/3 | 17pm | 13pm | Euro Colour | 17pm | +2 |
| 110 | Nil | - | 1pm | ¼pm | Natl. Home Lns. | ¼pm | |

### ■ D-MARK FUTURES (IMM) DM 125,000 per DM

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 0.6712 | 0.6741 | +0.0023 | 0.6774 | 0.6709 | 48,613 | 90,207 |
| Jun | 0.6730 | 0.6763 | +0.0023 | 0.6780 | 0.6730 | 1,695 | 5,239 |
| Sep | 0.6790 | 0.6786 | +0.0024 | 0.6800 | 0.6776 | 66 | 726 |

### ■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 0.7945 | 0.7976 | +0.0025 | 0.8020 | 0.7942 | 31,264 | 42,020 |
| Jun | 0.8037 | 0.8026 | +0.0027 | 0.8056 | 0.8003 | 1,269 | 2,221 |
| Sep | 0.8070 | 0.8075 | +0.0026 | 0.8090 | 0.8050 | 12 | 190 |

### ■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 1.0283 | 1.0298 | +0.0013 | 1.0330 | 1.0263 | 36,184 | 79,191 |
| Jun | 1.0373 | 1.0411 | +0.0014 | 1.0442 | 1.0373 | 1,723 | 8,790 |
| Sep | 1.0537 | 1.0528 | +0.0015 | 1.0565 | 1.0525 | 28 | 780 |

### ■ STERLING FUTURES (IMM) £62,500 per £

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 1.5778 | 1.5782 | - | 1.5868 | 1.5740 | 27,411 | 45,902 |
| Jun | 1.5820 | 1.5782 | +0.0002 | 1.5820 | 1.5720 | 287 | 1,638 |
| Sep | - | 1.5732 | -0.0006 | 1.5770 | 1.5710 | 6 | 6 |

### ■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | CALLS Mar | Apr | May | PUTS Mar | Apr | May |
|---|---|---|---|---|---|---|
| 1.500 | 7.73 | 7.78 | 7.92 | - | 0.13 | 0.37 |
| 1.525 | 5.35 | 5.63 | 5.93 | 0.02 | 0.41 | 0.78 |
| 1.550 | 3.10 | 3.71 | 4.15 | 0.26 | 0.97 | 1.47 |
| 1.575 | 1.40 | 2.24 | 2.70 | 1.00 | 1.91 | 2.48 |
| 1.600 | 0.44 | 1.20 | 1.69 | 2.53 | 3.30 | 3.84 |
| 1.625 | 0.08 | 0.57 | 0.97 | 4.61 | 5.14 | 5.58 |

Previous day's vol., Calls 14,009 Puts 17,072 . Prev. day's open int., Calls 255,091 Puts 316,544

### ■ Pound in New York

| Feb 17 | —Close— | — Prev. close — |
|---|---|---|
| £ spot | 1.5805 | 1.5783 |
| 1 mth | 1.5799 | 1.5777 |
| 3 mth | 1.5786 | 1.5765 |
| 1 yr | 1.5695 | 1.5678 |

**FT GUIDE to WORLD CURRENCIES**
The FT Guide to World Currencies table can be found on the Company's & Finance page in today's edition.

## UK INTEREST RATES

### LONDON MONEY RATES

| Feb 17 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 7½ - 5 | 6$\frac{11}{32}$ - 6⅛ | 6⅝ - 6½ | 6$\frac{13}{16}$ - 6⅝ | 7¼ - 7$\frac{1}{16}$ | 7⅞ - 7¾ |
| Sterling CDs | - | - | 6$\frac{9}{16}$ - 6½ | 6$\frac{23}{32}$ - 6$\frac{21}{32}$ | 7$\frac{1}{16}$ - 6$\frac{15}{16}$ | 7$\frac{11}{16}$ - 7⅝ |
| Treasury Bills | - | - | 6⅝ - 6½ | 6½ - 6$\frac{7}{16}$ | - | - |
| Bank Bills | - | - | 6$\frac{11}{32}$ - 6$\frac{9}{16}$ | 6$\frac{13}{16}$ - 6½ | 6⅞ - 6¾ | - |
| Local authority deps. | 6$\frac{7}{16}$ - 6$\frac{5}{16}$ | 6⅞ - 6$\frac{7}{16}$ | 6⅝ - 6½ | 6¾ - 6⅝ | 7⅛ - 7 | 7$\frac{11}{16}$ - 7$\frac{7}{16}$ |
| Discount Market deps | 7 - 5¼ | 6½ - 6$\frac{5}{16}$ | - | - | - | - |

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 3 | 5¼ | 5¼ | 6 | 6¼ |

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount 6.1553pc. ECGD fixed rate Stg. Export Finance. Make up day Jan 31, 1995. Agreed rate for period Feb 26, 1995 to Mar 25, 1995, Schemes II & III 7.87pc. Reference rate for period Dec 31, 1994 to Jan 31, 1995, Schemes IV & V 6.624pc. Finance House Base Rate 7pc from Feb 1, 1995

### BANK OF ENGLAND TREASURY BILL TENDER

| | Feb 17 | Feb 10 | | Feb 17 | Feb 10 |
|---|---|---|---|---|---|
| Bills on offer | £700m | £500m | Top accepted rate | 6.1789% | 6.1167% |
| Total of applications | £3299m | £2160m | Ave. rate of discount | 6.1553% | 6.1166% |
| Total allocated | £700m | £500m | Average yield | 6.2512% | 6.2115% |
| Min. accepted bid | £98.460 | £98.475 | Offer at next tender | £700m | £700m |
| Allotment at min. level | 8% | 100% | Min. accept. bid 182 days | - | - |

## BANK RETURN

| BANKING DEPARTMENT | Wednesday February 15, 1995 | Increase or decrease for week |
|---|---|---|
| **Liabilities** | £ | £ |
| Capital | 14,553,000 | |
| Public deposits | 1,201,884,005 | -37,926,066 |
| Bankers deposits | 1,812,556,990 | +150,143,363 |
| Reserve and other accounts | 3,096,478,106 | -105,624,373 |
| | 6,125,472,101 | +6,592,924 |
| **Assets** | | |
| Government securities | [illegible] | [illegible] |
| Advances and other accounts | [illegible] | [illegible] |
| Premises, equipment and other secs | [illegible] | [illegible] |
| Notes | [illegible] | [illegible] |
| Coin | [illegible] | [illegible] |
| | 6,125,472,101 | +6,592,924 |
| **ISSUE DEPARTMENT** | | |
| **Liabilities** | | |
| Notes in circulation | [illegible] | [illegible] |
| Notes in Banking Department | [illegible] | [illegible] |
| | 18,070,000,000 | -10,000,000 |
| **Assets** | | |
| Other Government securities | [illegible] | [illegible] |
| Other Securities | [illegible] | [illegible] |
| | 18,070,000,000 | -10,000,000 |

## BASE LENDING RATES

Adam & Company 6.75 ... Allied Trust Bank 6.75 ... Duncan Lawrie 6.75 ... Exeter Bank Limited 7.75 ... *Roxburghe Guarantee Corporation Ltd is no longer authorised as a banking institution. [remaining entries illegible]

● Members of London Investment Banking Association
* In administration

## UK GILTS PRICES

[illegible]

## STOCK INDICES

[illegible]



## LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION
IN THE MATTER OF BARCOM plc
IN THE MATTER OF THE COMPANIES ACT 1985

[illegible]

## COMPANY NOTICES

Continental (Bermuda) Limited
US $ 250,000,000
Floating Rate Notes due 2006
Guaranteed by
Hungarian Foreign Trade Bank Ltd.

[illegible]

Valuation Agent
Giro Credit Bank Aktiengesellschaft der Sparkassen, London Branch

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Jupiter Tyndall Global Fund

### GUERNSEY (SIB RECOGNISED)

Lazard Fund Mngrs - Contd.

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

### GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

Clariden Investment Management (Guernsey) Ltd

Dartmouth Management (Guernsey) Ltd

Global Portfolio Management (Guernsey) Ltd

Guernsey Capital Management Limited

Hambros Fund Managers (CI) Ltd

Hauteville Fund Managers (Guernsey) Ltd

IPS (Guernsey) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Managers (CI) Ltd

Lloyds Bank Fund Managers (Guernsey) Ltd

Merrill Lynch Guernsey

Midas Capital Mngt (Europe) Ltd

Rothschild Asset Mngmt (CI) Ltd

Small International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

Unit Asset Management (Guernsey) Ltd

### IRELAND (SIB RECOGNISED)

BT Fund Managers (Ireland) Ltd

Baring International Fd Managers (Ireland) Ltd

Coutts & Co Fund Managers Limited

The Fidelity Trust Global Fund

GAM Fund Management Ltd

Singer & Friedlander Inv Fnds Ltd - Contd.

Sun Life International Fund

### IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Asia Growth Fund Plc

Bank of Ireland Unit Managers Ltd

Korea Fund Plc

Kleinwort Benson Bond Arbitrage Fund Plc

Scottish Amicable European/International

### ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mgrs

### ISLE OF MAN (REGULATED)(**)

ATC Fund Management Ltd

John Govett Management (IoM) Ltd

### JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Capital House Fund Mgrs (CI) Ltd

Lloyds Bank (CI) U/T Mngrs

Midland Bank Fund Managers (Jersey) Ltd

### JERSEY (REGULATED)(**)

Barclays Intl Funds

Qatar Allen Investment Management (CI)

Fleming Group

Jupiter Tyndall Global Fund

Lloyds Private Banking (CI) Ltd

Royal Bank of Canada Intl Fd Mgr Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

### LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds

Commercial Union Luxembourg SA - Contd.

Dolphin Intl Investments (a) SICAV

Fidelity Funds

Fleming Group

Gartmore Luxembourg SA

Lloyds Bank Luxembourg

Midland Intl Circuit Fund SICAV

Nomura Global Fund

Schroder International Selection Fd

Scottish Equitable Intl Fund SICAV

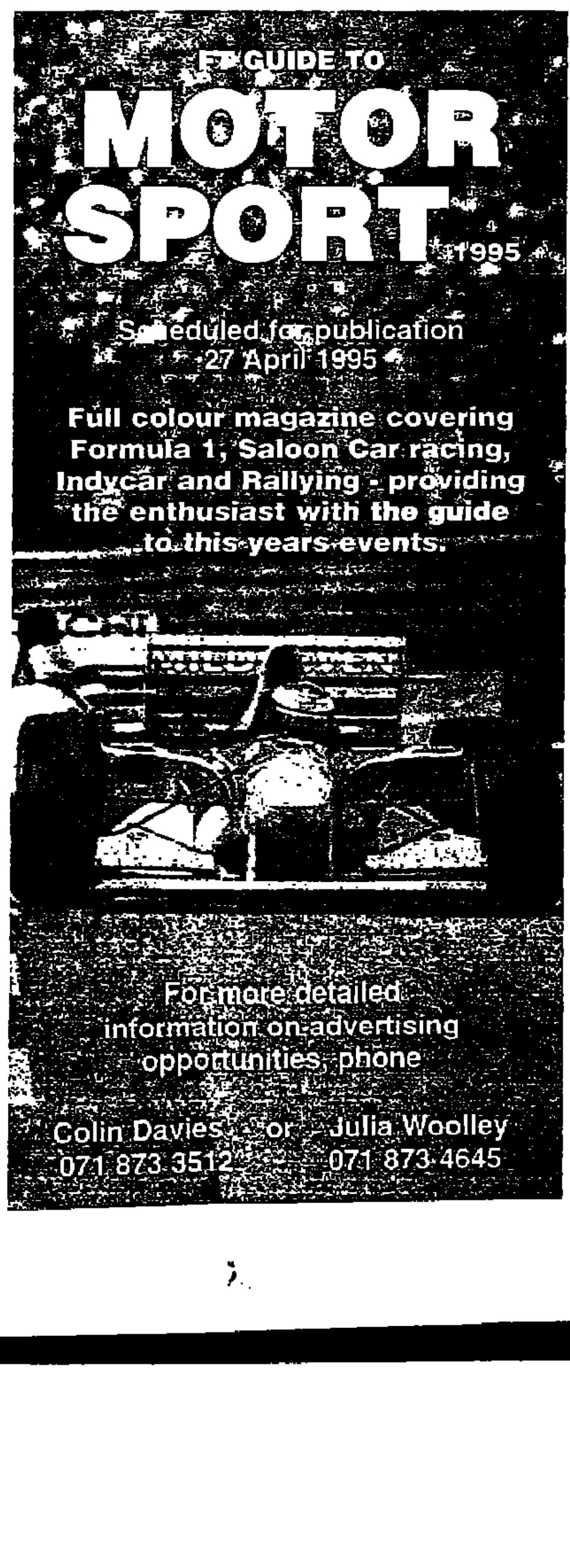
Sun Life Global Management Ltd

Templeton Global Strategy Funds

### LUXEMBOURG (REGULATED)(**)

Aetna International Umbrella Fund

Alliance Capital



صكنا من الاجل



# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

## OFFSHORE INSURANCES

## OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

# LONDON SHARE SERVICE

## BANKS, MERCHANT

| | Notes | Price | W'k% ch'nge | Div net | Div cov | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| Barings 8pc Cm 2nd Prf | | 98 | 1.0 | 8% | - | Jun Dec | 14.11 | 1757 |
| 9¼pc Non-Cum Prf | | 117¼ | — | 9¼% | - | Jan Jul | 14.11 | 1421 |
| Cater Allen | ‡†N□ | 438 | -1.8 | 28.3 | 1.6 | Jan Jul | 12.12 | 2087 |
| Close Bros | ‡N□ | 234 | 4.0 | 7.5 | 2.8 | Apr Oct | 3.10 | 2168 |
| Gerrard & Nat | ‡†N□ | 438 | -6.2 | 24.0 | 1.3 | Jul Dec | 7.11 | 2886 |
| Hambros | ‡N□ | 230 | -3.4 | 16.0 | 1.1 | Aug Dec | 28.11 | 2812 |
| 7½pc Cv Pf | | 108½ | -2.3 | 7½% | - | Oct | 5.9 | 4398 |
| Joseph (L) | ‡†N | 393 | — | 17.65 | 1.9 | Sep Dec | 5.12 | 3080 |
| King & Shaxson | ‡N | 97 | — | 9.0 | 1.1 | Jan Jul | 19.12 | 3088 |
| Kleinwort Benson | ‡gN□ | 623 | -.6 | 21.5 | 2.1 | May Oct | 15.8 | 3102 |
| Rea Bros | ‡†N□ | 62 | -3.1 | 0.95 | 3.2 | May Oct | 29.8 | 3785 |
| Schroders | ‡†N□ | 1535 | -1.5 | 18.5 | 5.9 | May Oct | 12.9 | 3939 |
| N/V | †N | 1385 | -1.4 | 18.5 | 5.9 | May Oct | 12.9 | 3941 |
| Singer & Fried | ‡†N□ | 85 | — | 3.13 | 2.6 | Nov Jun | 19.9 | 4028 |
| Union | ‡†N□ | 87 | -1.1 | 4.5 | 3.6 | Mar Oct | 29.8 | 4353 |
| Warburg (SG) | ‡N□ | 728 | — | 22.0 | 2.4 | Jul Dec | 14.11 | 4425 |
| Wintrust | ‡†N | 228 | — | 10.6 | 1.5 | Oct Mar | 22.8 | 4574 |

## BANKS, RETAIL

| | Notes | Price | W'k% ch'nge | Div net | Div cov | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| ABN Amro R | □ | £22½ | -1.1 | Q81% | 2.3 | Sep May | 9'93 | - |
| ANZ A$ | | 210 | -3.2 | Q25c | 2.4 | Jan | 12'93 | - |
| Abbey National | †N□ | 438 | -9 | 19.55 | 2.1 | May Oct | 15.8 | 5411 |
| Allied Irish I£ | ‡N□ | 274 | 1.5 | Q57.8% | 2.7 | Oct Apr | 15.8 | 1354 |
| Anglo Irish I£ | N□ | 51 | — | Q17.9% | 1.8 | Jan Jul | 28.11 | 1355 |
| Asahi Y | □ | 748½ | 1.4 | Q14% | ϕ | Jun Dec | 12'92 | 3049 |
| Banco Bil Viz Pta | □ | £16½ | 2.9 | Q27.2% | 2.7 | JyOcJaAp | 7'93 | - |
| Banco Sant Pta | | £24½ | 0.6 | Q38% | 2.0 | MyAuOcJa | 1.8 | - |
| Bk Ireland I£ | †N□ | 305 | -2.2 | Q14.7% | 3.2 | Jan Jul | 21.11 | 1360 |
| Bank Scotland | ‡†N□ | 207 | -1.0 | 6.31 | 3.3 | Jul Dec | 17.10 | 1742 |
| 9¼pc Pf | | 118¾ | -4 | 9¼% | - | May Nov | 17.10 | 1402 |
| 9¾pc Pf | | 124¼ | -4 | 9¾% | - | May Nov | 17.10 | 1685 |
| Barclays | ‡†N□ | 605 | -1.1 | 16.65 | 2.4 | Oct May | 15.8 | 1754 |
| Dai Ichi Kan Y | □ | £11½ | 4.0 | Q17% | 1.2 | Jun Dec | 9'93 | - |
| Deutsche DM | □ | £306¾ | 2.1 | Q33% | - | May | 5'93 | - |
| Espirito Santo | □ | £7¼ | -1.0 | Q80c | 5.2 | Jun | 6'93 | 5187 |
| Fuji Bank Y | □ | 1352 | -2.0 | Q17% | 1.3 | Dec Jun | 7'93 | - |

BUILDING MATS. & MERCHANTS - Cont.

## CHEMICALS

## DISTRIBUTORS

## DIVERSIFIED INDUSTRIALS

## ELECTRICITY

## ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

## ENGINEERING

## ENGINEERING, VEHICLES

## EXTRACTIVE INDUSTRIES

## FOOD PRODUCERS

## GAS DISTRIBUTION

## HEALTH CARE

HEALTH CARE - Cont.

## HOUSEHOLD GOODS

## INSURANCE

## INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

## BREWERIES

## BUILDING & CONSTRUCTION

## BUILDING MATS. & MERCHANTS

صحكذا من الاصل

# LONDON SHARE SERVICE

## INVESTMENT TRUSTS - Cont.

[illegible]

## INV TRUSTS SPLIT CAPITAL

[illegible]

## OTHER INVESTMENT TRUSTS

[illegible]

## INVESTMENT COMPANIES

[illegible]

## INVESTMENT COMPANIES - Cont.

[illegible]

## LEISURE & HOTELS

[illegible]

## LIFE ASSURANCE

[illegible]

## MEDIA

[illegible]

## OIL EXPLORATION & PRODUCTION

[illegible]

## OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

## OIL, INTEGRATED

[illegible]

## OTHER FINANCIAL

[illegible]

## OTHER SERVICES & BUSINESSES

[illegible]

## PAPER, PACKAGING & PRINTING

[illegible]

## PHARMACEUTICALS

[illegible]

## PROPERTY

[illegible]

## RETAILERS, FOOD

[illegible]

## RETAILERS, GENERAL

[illegible]

## RETAILERS, GENERAL - Cont.

[illegible]

## SPIRITS, WINES & CIDERS

[illegible]

## SUPPORT SERVICES

[illegible]

## TELECOMMUNICATIONS

[illegible]

## TEXTILES & APPAREL

[illegible]

## TOBACCO

[illegible]

## TRANSPORT

[illegible]

## TRANSPORT - Cont.

[illegible]

## WATER

[illegible]

## AMERICANS

[illegible]

## CANADIANS

[illegible]

## SOUTH AFRICANS

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| Anglo Am Ind | | £29 | — | Q275c | 1.9 | Oct Apr | 3'93 | – |
| Barlow | ‡ | £5⅝ | 0.2 | 658c | 2.8 | Jan Jul | 12.12 | – |
| Gold Flds Prop R | | 144xa | — | 080c | ♦ | Feb Sep | 1'94 | – |
| NK Props. | | 85 | — | 067.3c | – | Feb Sep | 10'93 | – |
| SASOL | ♥ | 494 | –.4 | 078c | – | Oct | 9'93 | – |
| SA Brews | † | 814⅝ | — | Q153c | 2.2 | Jan Dec | 21.11 | – |
| Tiger Oats | | 725 | — | 085c | 2.8 | Jan Jul | 12.12 | – |
| Tongaat-Hulett | †h | 782 | — | 080c | 2.4 | Feb Aug | 1'94 | – |

## GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

*Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.*

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ☐ *Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.*
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT.

z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1995-96. M Figures based on IIMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion.

## FT Share Service

The following changes have been made to the FT Share Information Service: Additions: First Russian Frontiers Ord. and Warrants (Inv. Tsts.). Deletions: Milagro Mins. (Ext. Inds.), First Natl. Fin. 6.3pc Pf (Other Fin.) and Dana Corp. (Americans).

## FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT2825. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

## FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 39p per minute cheap rate and 49p per minute at all other times.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 0171-873 4378 (+44 171 873 4378, international) for more information on FT Cityline.

*4 pm close February 17*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1995 High | 1995 Low | Stock | Div | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 14 1/4 | 13 | AAR | 0.48 | 3.6 | 24 | 45 | 13 1/2 | 13 1/4 | 13 3/8 | -1/8 |
| 22 1/8 | 19 1/4 | ALPharmaA | 0.18 | 0.8 | 49 | 128 | 21 7/8 | 21 3/4 | 21 3/4 | -1/4 |
| 75 1/4 | 70 1/8 | AMP | 1.84 | 2.5 | 21 | 2348 | 75 | 74 1/8 | 74 5/8 | -1/8 |
| 61 5/8 | 53 3/8 | AMR | | | 25 | 3591 | 58 1/2 | 58 | 58 | -1/2 |
| 46 1/8 | 41 7/8 | ASA | 1.71 | 3.9 | 29 | 1063 | 44 3/4 | 43 1/4 | 44 1/2 | +1 |
| 36 | 30 1/4 | AbbotL | 0.84 | 2.4 | 18 | 13721 | 34 5/8 | 34 1/4 | 34 3/8 | -1/4 |
| 14 | 13 | Abitibi Pr | 0.50 | 3.8 | 11 | 197 | 13 1/4 | d13 | 13 1/8 | -1/8 |
| 24 3/8 | 22 1/4 | ABM Ind | 0.60 | 2.7 | 13 | 45 | 22 3/8 | d22 1/8 | 22 3/8 | |
| 16 5/8 | 14 1/2 | Acptncain | | | 12 | 44 | 16 1/2 | 16 1/4 | 16 3/8 | -1/8 |
| 25 7/8 | 21 7/8 | ACE Ltd | 0.44 | 1.8 | 8 | 640 | 25 1/4 | 24 7/8 | 24 7/8 | -1/8 |
| 9 3/4 | 9 1/8 | ACM Gvt In | 1.09 | 11.5 | 8 | 358 | 9 1/2 | 9 3/8 | 9 1/2 | |
| 7 1/2 | 7 1/8 | ACM GvOpp | 0.80 | 11.2 | | 7 | 7 1/4 | d7 1/8 | 7 1/8 | -1/8 |
| 7 1/2 | 6 3/4 | ACM Gvt Sp | 0.96 | 13.5 | | 293 | 7 1/4 | 7 1/8 | 7 1/8 | |
| 8 5/8 | 8 | ACM Gvt Se | 1.09 | 13.1 | | 398 | 8 1/2 | 8 3/8 | 8 3/8 | |
| 8 1/2 | 7 5/8 | ACM Man | 1.08 | 14.2 | | 213 | 7 3/4 | d7 5/8 | 7 5/8 | -1/8 |
| 7 5/8 | 7 1/4 | ACM Managd | 0.72 | 9.8 | | 17 | 7 3/8 | d7 1/4 | 7 3/8 | +1/8 |
| 16 1/4 | 10 1/4 | AcmeCIv | 0.48 | 3.3 | 8 | 135 | 15 1/4 | 14 5/8 | 14 5/8 | -3/8 |
| 21 1/2 | 12 5/8 | Acme Elect | | | 21 | 45 | 18 3/4 | 18 1/2 | 18 1/2 | -3/8 |
| 34 1/2 | 31 3/8 | Acordia | 0.72 | 2.2 | 16 | 32 | 33 1/4 | 33 1/8 | 33 1/8 | -1/4 |
| 11 1/8 | 8 5/8 | Acitva | 0.36 | 3.3 | 3 | 173 | 10 3/4 | 10 5/8 | 10 3/4 | +1/8 |
| 16 3/4 | 12 5/8 | Acuson | | | 20 | 3672 | 13 | d12 5/8 | 12 3/4 | -1/4 |
| 16 5/8 | 15 5/8 | Adams Exp x | 0.36 | 2.2 | 0 | 80 | 16 3/8 | 16 1/4 | 16 1/4 | -1/8 |
| 64 1/2 | 53 | Ad Micro | 3.00 | 4.9 | | 149 | 61 1/8 | 60 1/4 | 61 | -1/8 |
| 32 1/4 | 25 | AdvMic | 1.00 | 9.8 | 9 | 5095 | 31 | 30 1/2 | 30 3/4 | -1/4 |
| 6 3/8 | 5 | Advest Grp | 0.16 | 2.6 | 30 | 36 | 6 1/8 | 6 1/8 | 6 1/8 | -1/8 |
| 19 1/4 | 16 1/2 | Aevo Inc | 0.10 | 0.5 | 15 | 28 | 18 3/4 | 18 1/2 | 18 1/2 | -1/2 |
| 66 1/2 | 63 7/8 | Aegon ADR | 1.47 | 2.2 | 13 | 40 | u67 1/2 | 66 7/8 | 67 1/8 | +7/8 |
| 4 1/4 | 3 3/8 | Aerfls | | | 5 | 121 | u4 1/4 | 4 | 4 1/4 | +1/4 |
| 53 1/2 | 46 3/4 | AetnaL | 2.76 | 5.3 | 12 | 3015 | 52 1/8 | 51 7/8 | 51 7/8 | -1/8 |

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S -



Continued on next page

*4 pm close February 17*

# NYSE COMPOSITE PRICES

Continued from previous page

| 1995 High | 1995 Low | Stock | Div. | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 36¼ | 33¼ | SFePPipe | 2.80 | 7.7 | 9 | 112 | u36¼ | 36 | 36¼ | |
| 21⅛ | 17⅛ | SanFeP | 0.10 | 0.5 | 20 | 4461 | u21¼ | 21 | 21⅛ | +⅛ |
| 27¼ | 24¼ | SaraLee | 0.68 | 2.6 | 52 | 9971 | 26⅛ | 25¾ | 25¾ | -⅛ |
| 45⅛ | 42 | Scana Corp | 2.88 | 6.5 | 13 | 168 | 44⅛ | 44 | 44⅛ | -⅛ |
| 16¾ | 14½ | Scecrp | 1.00 | 6.1 | 10 | 10042 | 16½ | 16¼ | 16⅜ | -⅛ |
| 11¼ | 9⅝ | SchawkA | 0.26 | 2.6 | 35 | 24 | 9⅞ | 9¾ | 9⅞ | |
| 48¼ | 42⅞ | SchererRP | | | 28 | 708 | 45⅞ | 45 | 45¼ | +¼ |
| 78⅛ | 71 | SchrPl | 2.04 | 2.7 | 16 | 4534 | 77⅜ | 76⅝ | 76⅞ | -⅛ |
| 55¾ | 50⅛ | Schlmb | 1.20 | 2.1 | 25 | 8308 | u56½ | 55¼ | 56⅛ | +1 |
| 45¼ | 33⅛ | Schwab(C) | 0.36 | 0.8 | 19 | 1807 | 44⅝ | 44 | 44⅛ | -⅝ |
| 9½ | 7¾ | Schweitzer | | | 6 | 81 | 9 | 8¾ | 9 | -⅛ |
| 22⅜ | 17½ | SciAtl | 0.06 | 0.3 | 27 | 1172 | 22 | 21⅜ | 21¾ | -¼ |
| 18⅛ | 16¾ | Scotsman | 0.10 | 0.6 | 13 | 276 | u18⅛ | 18 | 18⅛ | |
| 78¾ | 67⅛ | ScottP | 0.80 | 1.0 | 21 | 2578 | 77¼ | 76¾ | 76¾ | -1 |
| 30⅛ | 26⅞ | Scripps | 0.44 | 1.5 | 18 | 89 | 29¾ | 29⅜ | 29⅝ | -⅛ |
| 21½ | 15⅞ | ScuddrNAsF | 0.02 | 0.1 | | 162 | 16¼ | 16 | 16 | -⅜ |
| 9¼ | 8⅞ | ScuddrNEuF | 0.16 | 1.8 | | 200 | 9⅛ | 9 | 9 | -⅛ |
| 14⅞ | 13⅛ | SeaCnB | 0.70 | 4.8 | 9 | 18 | 14½ | 14⅜ | 14½ | +⅛ |
| 15½ | 15⅛ | SeaC1.4625 | 1.46 | 9.7 | | 3 | 15⅛ | d15⅛ | 15⅛ | -⅛ |
| 28 | 24 | S'gate | | | 7 | 3118 | 26½ | 26¼ | 26⅜ | |
| 30⅝ | 28⅛ | Seagram | 0.60 | 2.0 | 14 | 3586 | 30⅛ | 29⅝ | 29⅝ | -½ |

- X - Y - Z -

| 1995 High | 1995 Low | Stock | Div. | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 110¾ | 98½ | Xerox | 3.00 | 2.8 | 16 | 3606 | 110⅜ | 108¼ | 108¾ | -¾ |
| 52½ | 44⅛ | Xtra Corp x | 0.64 | 1.3 | 14 | 870 | 51 | 49⅝ | 50½ | +⅝ |
| 22⅜ | 20⅝ | Yankee Egy | 1.22 | 5.7 | 11 | 34 | 21⅜ | 21⅛ | 21⅜ | |
| 37⅞ | 34⅛ | York Int | 0.16 | 0.4 | 15 | 906 | 37½ | 37 | 37 | -½ |
| 4⅛ | 3⅛ | Zapata | 0.14 | 4.1 | 10 | 120 | 3½ | d3⅜ | 3⅜ | -⅛ |
| 12⅛ | 9½ | ZnthEl | | | 6 | 10461 | 9⅞ | d9¼ | 9⅜ | -⅜ |
| 22¾ | 21⅛ | Zenith Nat | 1.00 | 4.6 | 10 | 68 | 21⅞ | 21½ | 21⅞ | |
| 6⅜ | 6⅛ | Zenix Inc x | 0.76 | 12.1 | | 150 | u6⅜ | d6⅛ | 6¼ | |
| 14 | 12⅝ | Zero | 0.44 | 3.2 | 15 | 227 | 13⅞ | 13⅝ | 13⅞ | +⅛ |
| 19½ | 17¾ | Zurn Ind | 0.88 | 4.9 | 69 | 416 | 18½ | 17⅞ | 18⅛ | +⅛ |
| 11¼ | 10⅜ | Zweig Fund | 1.04 | 9.3 | | 153 | 11⅛ | 11 | 11⅛ | |
| 8⅝ | 7⅞ | Zweig Totl x | 0.84 | 10.0 | | 213 | 8½ | 8⅜ | 8⅜ | -⅛ |

*Price data supplied by Telekurs*

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

# NASDAQ NATIONAL MARKET

*4 pm close February 17*

# AMEX COMPOSITE PRICES

*4 pm close February 17*

| Stock | Div. | P/E | Sls 100s | High | Low | Close | Chng |
|---|---|---|---|---|---|---|---|
| Adv Magn | | 55 | 70 | 16 | 15⅝ | 16 | +¼ |
| Alfin Inc | | 5 | z100 | 13/16 | 13/16 | 13/16 | |
| Alpha Ind | | 7 | 145 | 9⅝ | 9⅜ | 9⅜ | -¼ |
| Am Isr Pa | 1.05 | 20 | 2 | 46 | 46 | 46 | -½ |
| AmMaize A | 0.68 | 12 | 127 | 32¼ | 31⅞ | 32¼ | +¼ |
| Amdahl | 0.05 | 17 | 1144 | 11½ | 11⅛ | 11⅛ | -⅜ |
| Am Expl | | 1 | 73 | [illegible] | [illegible] | [illegible] | [illegible] |
| Ampal-AmA | | 16 | 252 | 5¼ | 5⅛ | 5¼ | -⅛ |
| ASR Invs | 0.10 | 25 | 327 | 3¼ | 2 15/16 | 3¼ | +1/16 |
| Astrotech | | 24 | 10 | 3⅛ | 3⅛ | 3⅛ | |
| Atari | | 8 | 179 | 3⅝ | 3½ | 3½ | |
| AtlzCM B | | 0 | 5 | ¼ | d¼ | ¼ | -1/16 |
| Audiovox A | | 2 | 312 | 7⅛ | 6⅞ | 7 | +⅛ |
| B&H Ocean | 0.55 | 0 | 29 | 2 7/16 | 2⅜ | 2⅜ | |
| BadgerMr | 0.73 | 12 | 21 | 22¾ | d22⅛ | 22¾ | +½ |
| BaldwnT A | 0.04 | 20 | 144 | 5¾ | 5½ | 5⅝ | +⅛ |
| Barry RG | | 13 | 248 | u12¾ | 11⅝ | 12½ | +⅞ |
| BATadr | 0.71 | 11 | 183 | 13⅞ | 13½ | 13⅝ | -⅜ |
| Beard | | 7 | z100 | 1 1/16 | 1 1/16 | 1 1/16 | |
| Binks Man | 0.40 | 26 | 15 | u22⅛ | 22 | 22⅛ | +⅛ |
| Bio-Rad A | | 14 | 130 | 27⅝ | 27¼ | 27½ | +¼ |
| Blount A | 0.57 | 17 | 377 | 47⅝ | 46½ | 47⅝ | +1 |
| Bowmar | | 12 | 8 | 3¼ | 3¼ | 3¼ | |
| Bowne | 0.36 | 9 | 168 | 17⅝ | 17¼ | 17½ | -⅛ |
| Brascan A | 1.04 | 17 | 7 | 13¼ | 13⅛ | 13⅛ | -⅛ |
| Calprop | | 1 | 6 | 11/16 | 11/16 | 11/16 | |
| Cambrex | 0.20 | 14 | 217 | u29⅝ | 28⅝ | 28⅞ | +¾ |
| Can Marc | 0.14 | 30 | 6 | 9½ | 9¼ | 9½ | +⅛ |
| Chmbrs A | 0.01 | 3 | 1038 | 4 1/16 | 4 | 4 | |
| Chambers | | 8 | 112 | 4 | 4 | 4 | |
| Champion | | 9 | 97 | 29¼ | 28⅞ | 28⅞ | -½ |
| CircPh | 0.04 | 21 | 137 | 17⅜ | 17⅛ | 17¼ | |
| Cmtri FdA | 0.01 | | 241 | 4½ | 4 7/16 | 4½ | +⅛ |
| Cominco | 0.30 | 9 | 14 | 15½ | 15¼ | 15½ | -⅛ |
| CmpTch | | 54 | 4 | 6½ | 6½ | 6½ | +⅛ |
| Computrac | | 2 | 27 | 1⅜ | 1 5/16 | 1 5/16 | |
| Concd FbA | | 3 | 7 | 7 | 6⅞ | 6⅞ | -⅛ |
| CrossAT A | 0.84 | 24 | 219 | u15 | 14½ | 15 | +⅜ |
| Crown C A | 0.40 | 6 | 50 | 12½ | 12¼ | 12½ | |
| Crown C B | 0.40 | 10 | 319 | 12¾ | 12⅛ | 12⅛ | -⅛ |
| Cubic | 0.53 | 47 | 32 | 20¼ | 19¾ | 19¾ | -½ |
| Customedix | | 10 | 5 | 2⅝ | 2⅝ | 2⅝ | |
| DI Inds | | 9 | 172 | 13/16 | ¾ | ¾ | -⅛ |
| Dimark | | 26 | 26 | 14⅞ | 14⅝ | 14⅞ | +⅛ |
| Ducommun | | 11 | 11 | 6 | 5⅞ | 6 | +⅛ |
| Duplex | 0.48 | 8 | 25 | 7¼ | 7¼ | 7¼ | |
| Eastn Co x | 0.46 | 14 | 3 | 13⅜ | 13⅜ | 13⅜ | +⅜ |
| Echo Bay | 0.07 | 64 | 9160 | 9⅛ | d8⅞ | 9 | +⅛ |
| Ecol En A | 0.32 | 8 | 26 | 9 | 9 | 9 | |
| Edisto Rs | | 12 | 20 | 6¼ | d6 | 6¼ | |
| Elan | | 28 | 1197 | 36¾ | 36¼ | 36¾ | |
| EngySv | | 19 | 2978 | 11⅞ | 11⅝ | 11¾ | +⅛ |
| Epitope | | 10 | 1189 | 17¼ | 16¾ | 17⅛ | +¼ |
| Fab Inds x | 0.64 | 12 | 69 | 31⅜ | 31⅜ | 31⅜ | -¼ |
| Fina A | 4.00 | 11 | 33 | 77⅝ | 77 | 77 | -1 |
| FstCityBnc | 0.20 | 8 | 8 | 11½ | 11½ | 11½ | |
| Fluke (J) | 0.58 | 22 | 106 | 31⅛ | 30¾ | 31 | +⅛ |
| Forest La | | 24 | 1161 | 50¼ | 48¾ | 50 | -⅜ |
| Frequency | | 3 | 27 | 4⅛ | d4 | 4⅛ | +⅛ |
| Garan | 0.80 | 8 | 115 | 15⅝ | 15½ | 15⅝ | +⅛ |
| Giant FdA | 0.72 | 15 | 320 | u24⅛ | 23⅝ | 23½ | -¼ |
| Glatfltr | 0.70 | 8 | 252 | u17¾ | 17⅜ | 17¾ | +¼ |
| Goldfield | | 1 | 116 | ⅜ | 5/16 | ⅜ | -1/16 |
| Greenman | | 8 | 30 | 4⅞ | 4 13/16 | 4⅞ | -1/16 |
| Gulf Cda | 0.34 | 7 | 88 | 3½ | 3⅜ | 3½ | |
| HanDir | | 16 | 895 | 2⅞ | 2 13/16 | 2⅞ | |
| Hasbro | 0.28 | 15 | 548 | 32 | 31⅝ | 31¾ | +⅛ |
| Health Ch | | 20 | 17 | 3 | 2⅞ | 2⅞ | |
| HlthcAm | | 0 | 39 | 13/16 | ⅝ | 13/16 | +1/16 |
| Heico | 0.15 | 20 | 52 | u13⅛ | 12⅝ | 13⅛ | +½ |
| HvmenianA | | 12 | 178 | 6 | 5¾ | 6 | |
| InstronCp | 0.12 | 21 | 2 | 13⅛ | 13⅛ | 13⅛ | |
| Int. Comm | | 10 | 2478 | 11 | 10½ | 10⅞ | -⅛ |
| Intermagn | | 83 | 94 | 13½ | 13⅜ | 13⅜ | -⅛ |
| Ivax | 0.08 | 16 | 2778 | 22¼ | 21⅝ | 21⅞ | -¼ |
| Jan Bell | | 2 | 221 | 3⅞ | 3¾ | 3¾ | -⅛ |
| Kinark Cp | | 29 | 11 | 3¼ | 3¼ | 3¼ | |
| Kirby Exp | | 27 | 59 | 16⅜ | 16¼ | 16¼ | -⅛ |
| KogrEq | | 33 | 43 | 7¾ | 7½ | 7⅝ | +⅛ |
| Laborge | | 11 | 30 | u1 7/16 | 1⅜ | 1 7/16 | +1/16 |
| Laser Ind | | 8 | 41 | 5¾ | 5¾ | 5¾ | -⅛ |
| Lee Pharm | | 5 | 103 | ⅞ | 13/16 | 13/16 | -1/16 |
| Lumex Inc | | 66 | 6 | 14⅛ | 14 | 14⅛ | |
| Lynch Cp | | 21 | 3 | 35¼ | 35 | 35¼ | +¼ |
| Maxxam | | 2 | 33 | 30⅜ | 30¼ | 30¼ | -⅜ |
| Media A | 0.48 | 22 | 382 | 29½ | 28¾ | 28⅞ | -¾ |
| Mem Co | 0.20 | 26 | 5 | 3¾ | 3¾ | 3¾ | |
| MitelLd | | | 30 | 7¼ | d7¼ | 7¼ | |
| Moog A | | 26 | 125 | 9 | 8¾ | 9 | -⅛ |
| MSR Expl | | 64 | 124 | 1⅝ | 1 9/16 | 1⅝ | +1/16 |
| Nat Ptnt | | 4 | 1878 | 2⅛ | 2 1/16 | 2⅛ | |
| NY TmA | 0.56 | 10 | 1200 | 21⅝ | 21⅜ | 21⅝ | |
| NumacE | | 17 | 129 | 5⅜ | 5¼ | 5⅜ | |
| NVR | | 14 | 29 | 6⅛ | 6 | 6⅛ | |
| Pegasus G | 0.10 | 6 | 2163 | 10½ | 10¼ | 10⅜ | -⅛ |
| Perini | 0.80 | 20 | 29 | 10⅞ | 10⅝ | 10¾ | +⅛ |
| Pittway A | 0.50 | 66 | 57 | 39¾ | 39⅝ | 39¾ | |
| PMC | 0.96 | 13 | 23 | 12½ | 12¼ | 12¼ | -⅛ |
| PresidioA | 0.10 | 1 | 20 | ⅜ | ⅜ | ⅜ | |
| RaganBrad | | 19 | 5 | 33 | 33 | 33 | |
| RBSW Cp | | 34 | 80 | 8⅝ | 8⅝ | 8⅝ | -⅛ |
| SJW Corp | 2.16 | 11 | 9 | 34¾ | 34⅜ | 34⅝ | -⅜ |
| SthnUnion | | 19 | 60 | 16⅝ | 16⅜ | 16⅜ | -⅛ |
| SWLife | | 0 | 355 | 11/16 | ¾ | 11/16 | +1/16 |
| Tab Prods x | 0.20 | 11 | 27 | 6¾ | 5⅝ | 6⅝ | -.05 |
| Tel&Data | 0.36 | 42 | 805 | u46¼ | 45¼ | 45⅜ | -⅛ |
| Thermedcs | | 45 | 176 | 14 | 13¾ | 13¾ | -¼ |
| ThermoIns | | 25 | 312 | 30½ | 30⅜ | 30½ | +⅛ |
| TotPNA | 0.30 | 17 | 249 | 10⅞ | 10½ | 10⅞ | +¼ |
| TownCntry | | 3 | 111 | ⅞ | 13/16 | 13/16 | |
| Triton | | 1 | 370 | 1 1/16 | d1 1/16 | 1 1/16 | -⅛ |
| Tubos Mex | | 4 | 507 | 3⅜ | 3 | 3¼ | +1/16 |
| TurnrBrA | 0.07 | 180 | 103 | u18⅛ | 18 | 18 | |
| TurnrBrB | 0.07 | 1812 | 475 | 18⅜ | 18⅛ | 18⅛ | |
| UtdFoodsA | | 5 | 5 | 2 3/16 | 2 3/16 | 2 3/16 | |
| UtdFoodsB | 0.20 | 16 | 3 | 2 3/16 | 2 3/16 | 2 3/16 | |
| US Cellul | | 154 | 49 | 32½ | 32 | 32⅜ | +⅛ |
| ViacomA | | 141 | 801 | 48⅛ | 47⅞ | 48 | -⅛ |
| ViacomB | | | 4034 | u47⅞ | 47⅛ | 47¼ | |
| WRIT x | 1.12 | 13 | 118 | 12⅜ | d12⅛ | 12¼ | +⅞ |
| Worthen | 0.60 | 11 | 209 | 30⅞ | 30⅛ | 30⅛ | -¼ |
| Xytronix | | 2 | 41 | 2¾ | 2¾ | 2¾ | -⅛ |

# FT GUIDE TO THE WEEK

## MONDAY 20

### EU finance ministers meet

France chairs a meeting of European Union finance ministers in Brussels which will discuss the Commission's ideas for cracking down on fraud as well as its legislative programme for 1995. Ministers will also discuss guidelines on macro-economic aid to third countries, chiefly to the new democracies of central and eastern Europe.

### Transport of livestock

EU agricultural ministers, beginning a two-day session in Brussels, consider limits on the length of time live animals can be transported. The issue has been deadlocked for two years, but the Commission and France, which holds the rotating presidency, have served notice that they are determined to find a compromise. Pressure from animal rights activists has made this a particularly difficult issue for William Waldegrave, UK agriculture minister, who will continue to push for the council to agree a time limit on journeys for all member states.

The ministers will also discuss modest price changes to butter and cereals announced by Franz Fischler, agriculture commissioner, last week.

### Strike threat in Germany

The country faces its first strike in the engineering sector for 11 years, after the IG Metall trade union, which is seeking a 6 per cent pay rise, rejected an employers' offer to hold last-minute talks at the weekend.

The union has called a strike ballot in the south German state of Bavaria, which is expected to last until Wednesday. The strike could go ahead on Friday after votes have been counted. Employers have not directly responded to the pay claim, saying that ways of reducing costs must be discussed first.

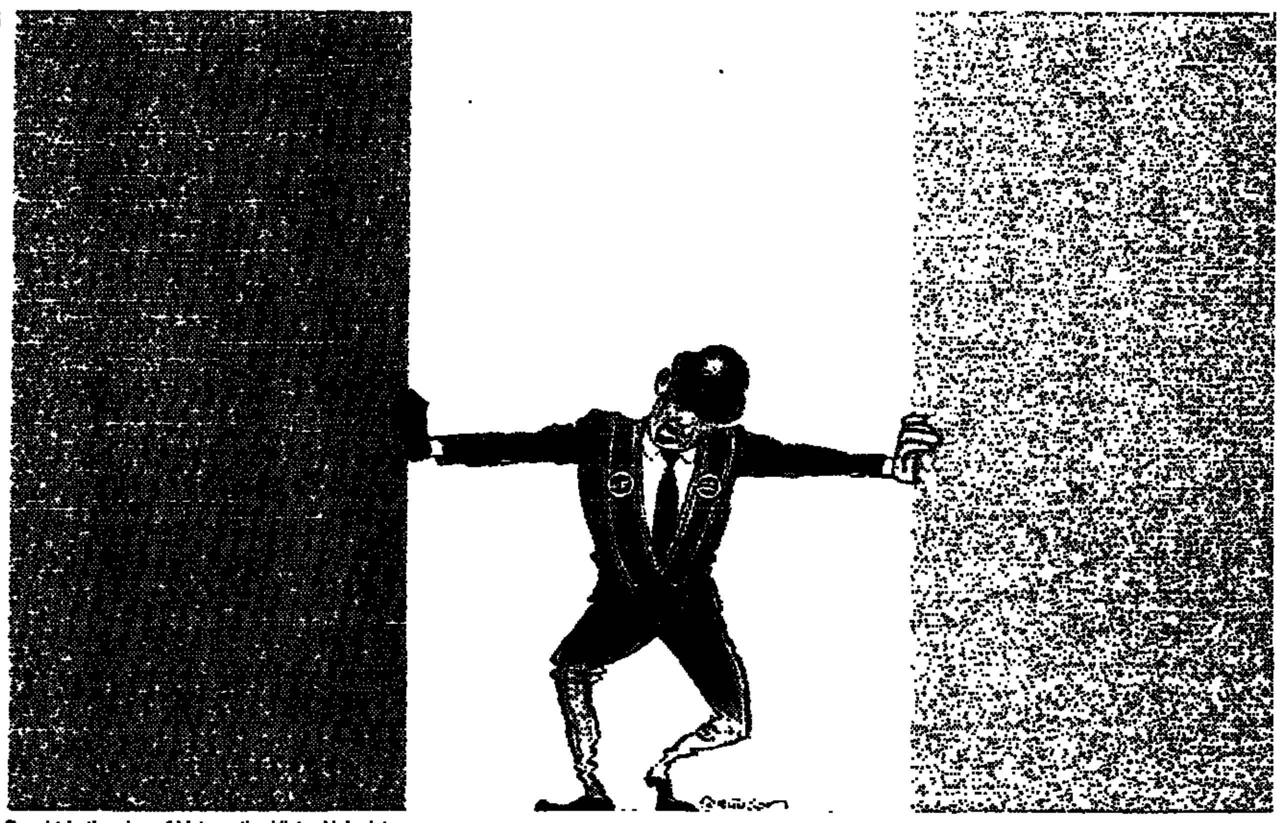
### Power to China

Hazel O'Leary, US energy secretary, is due in Beijing at the head of an energy and environmental delegation for talks aimed at promoting partnerships in energy and environmental technology. Deals involving up to $5bn will be discussed.

### Carlsson visits South Africa

Sweden's prime minister, Ingvar Carlsson (left), meets South Africa's President Nelson Mandela during a visit which will give his hosts the opportunity to thank Sweden's Social Democrats for decades of support for the ANC during its struggle against apartheid.

Stockholm was the biggest contributor to ANC finances until last year's South African elections. Mr Carlsson will now be looking for South Africa to reward Sweden with trade for its exporting companies, long kept out of the South African markets by tough Swedish sanctions.



Caught in the vice of history: the Ulster Unionists

### S Africa set to join bank

South Africa continues its return to the international economic community when an African Development Bank delegation, led by its secretary-general, Hedi Meliane, begins talks on Pretoria's admission.

The size of South Africa's shareholding has yet to be determined, but it could take up to 12 per cent, overtaking Nigeria to become the biggest member. Nigeria controls 10 per cent of shares.

### Yeltsin's friendship call

Russia's president, Boris Yeltsin, arrives in Minsk, capital of Belarus, for a two-day official visit to give impetus to deepening economic and political ties between Russia and Belarus. Mr Yeltsin's visit follows a disappointing meeting between all 12 leaders of the Commonwealth of Independent States held in Alma Ata earlier this month. Belarus' president, Alexander Lukashenko, says the two countries will sign a framework co-operation treaty.

### Romania-Moldova boost

Romania's prime minister, Nicolae Vacaroiu, begins a two-day visit to the former Soviet republic of Moldova aimed at boosting economic and cultural relations between the neighbouring states. Most of Moldova was land seized from Romania under a Nazi-Soviet treaty and ethnic Romanians make up more than 60 per cent of the population.

### Irish president in Japan

Ireland's president, Mary Robinson, arrives in Tokyo to hold talks with prime minister Tomiichi Murayama and other government officials (to Feb 26).

### France's oldest person 120

France's – and, according to the Guinness Book of Records, the world's – oldest person, Jeanne Calment, is due to celebrate her 120th birthday.

### FT Surveys

Emerging Markets and European Financial Centres: Manchester.

### Holidays

US (Presidents' Day).

## TUESDAY 21

### Eddie George talks on EMU

Eddie George, governor of the Bank of England, will deliver the Winston Churchill Memorial Lecture on the Economics of European Monetary Union in Luxembourg.

The audience is the Association des Anciens Combattants, the British-Luxembourg Society and the Ligue Luxembourgeoise des Prisonniers Politiques et Déportés. British Tory Euro-sceptics will be looking for encouragement if the governor continues to spell out the economic obstacles to a single currency.

### CFA franc devaluation

Policymakers from 14 poor francophone African nations meet in Geneva (to Feb 24) to discuss ways of mitigating the impact on health and education of the January 1994 devaluation of the CFA franc. The meeting is hosted by the World Health Organisation and the United Nations Educational, Scientific and Cultural Organisation (Unesco).

### Walesa in Argentina

Poland's president, Lech Walesa, is expected to meet Paraguay's vice-president at the Brazil-Paraguay border before going on to visit Argentina.

### Mafia bosses on trial

The trial is scheduled to begin in Caltanisetta, Sicily, of 'boss of bosses' Salvatore Riina and 36 other alleged Mafiosi for killing the anti-mafia judge Giovanni Falcone, his wife Francesca and three police escorts in May 1992.

### Holidays

Bangladesh.

## WEDNESDAY 22

### Greenspan in spotlight

Financial markets hold their breath as Alan Greenspan delivers the Federal Reserve's Humphrey-Hawkins testimony on monetary policy to the Senate banking committee.

### Bremen on the brink

A vote of no confidence is expected today or tomorrow in the north German city-state's Green environment minister, who holds the portfolio in the 'traffic light' government – the Social Democratic party (SPD), the Free Democratic party (FDP) and the Greens – and is under fire for turning seven commercial properties into bird reserves.

The opposition Christian Democratic Union (CDU), which called the vote, controls only 33 of the parliament's 100 seats but expects support from the FDP and some members of the SPD.

### FT Survey

International Conferences and Exhibitions.

## THURSDAY 23

### Clinton visits Canada

US president, Bill Clinton, arrives in Ottawa for a two-day visit. His talks with Canadian prime minister Jean Chrétien are expected to centre on US-Canada trade issues, including a dispute over a country-music cable-TV channel, and he will sign a liberalised air-traffic agreement. Mr Clinton will also have a brief meeting with Lucien Bouchard, head of the secessionist Bloc Quebecois.

### Gramm runs for US president

Senator Phil Gramm holds a fund-raiser in Dallas that supporters say will net him more cash than any presidential candidate has ever raised in a single night. Gramm will formally announce that he is running for the White House at a rally on Thursday at Texas A&M University, where he once taught economics.

### FT Survey

Rhône Alpes.

### Holidays

Russia.

## FRIDAY 24

### G7 on the superhighway

Ministers and leading industrialists from the G7 countries meet in Brussels over three days to discuss the social, industrial and political implications of the convergence of telecommunications and computing in the "Information Society". US vice-president Al Gore and EU Commission president Jacques Santer are among the speakers.

### Greece seeks a president

Greece's parliament holds the first of three votes to choose a new head of state to succeed 85-year-old President Constantine Karamanlis.

The front-runner is Costis Stefanopoulos, 69 (left), a centre-right politician backed both by the governing Panhellenic Socialist Movement and Political Spring, a right-wing splinter group. But he is not likely to win the two-thirds majority needed for election on the first round. He will be running against Athanasios Tsaldaris, a former speaker of parliament.

### Swiss banks' result season

Union Bank of Switzerland starts the big Swiss bank results season. UBS has admitted that net income will be lower than the exceptional SFr2.27bn ($1.75bn) earned in 1993.

### FT Surveys

Singapore and World Taxation.

### Holidays

Estonia (Independence Day).

## SATURDAY 25

### Extreme meeting

Vladimir Zhirinovsky, controversial leader of the extreme-nationalist Liberal Democratic Party of Russia, visits Baghdad to hold talks with the Iraqi leadership (to Feb 27).

Mr Zhirinovsky (left), who aims to succeed Mr Boris Yeltsin as Russia's president, has long supported Iraq's Saddam Hussein. Mr Zhirinovsky sent supporters to help defend Iraq during the Gulf War.

### Sinn Féin conference

Ard Fheis (annual conference) of Sinn Féin (to Feb 26).

## SUNDAY 26

### US sanctions on China due

Deadline day for the agreement of a US-China pact over intellectual property rights. Failure to agree to substantive changes in enforcement of patents, trademarks and copyright will bring 100 per cent tariffs on $1bn of Chinese goods.

*Compiled by Patrick Stiles and Chris Roberts.*
*Fax: (+44) (0)171 873 3194.*

## ECONOMIC DIARY

### Other economic news

Monday: UK bank and building society lending to the private sector is forecast to have slowed in January, with the weak housing market expected to depress building societies' new mortgage commitments.

Tuesday: The rate of inflation in Italy's cities is thought to have been fairly stable last month, while growth in Swedish industrial production should have picked up.

Wednesday: The second estimate of UK fourth-quarter gross domestic product will be scrutinised for further evidence that economic growth is slowing, despite buoyant demand for exports.

Thursday: New claims for unemployment benefits in the US are expected to have have picked up slightly in the week ending February 18. The figures should stabilise soon after holiday period fluctuations.

Friday: US durable goods orders are expected to show a fall for January, the first since October. The industrial trends survey of the Confederation of British Industry will help indicate whether growth in UK manufacturing is slowing. The UK trade deficit with countries outside the European Union should have narrowed after widening in December.

### Statistics to be released this week

| Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
|---|---|---|---|---|
| Mon | Japan | Feb wholesale price indx, 1st 10 days | - | 0.1% |
| Feb 20 | UK | Jan M4* | 0.4% | 0.4% |
| | UK | Jan M4** | 4.5% | 4.5% |
| | UK | Jan M4 lending | £3bn | £3.9bn |
| | UK | Jan bdg soc'ties net new commits | £2.2bn | £2.5bn |
| | Italy | Dec indust production** | 7.1% | 7% |
| Tues | US | Johnson Redbook w/e Feb 18 | | -3.3% |
| Feb 21 | Japan | Dec coincident indx | - | 60% |
| | Japan | Dec leading diffusion indx | - | 70% |
| | France | Dec industrial production*† | 0.4% | 0.4% |
| | France | Dec manufacturing production*† | 0.5% | 2.9% |
| | Canada | Dec retail sales*† | - | -0.3% |
| Wed | US | Jan Treasury budget | $14bn | -$4.1bn |
| Feb 22 | France | Jan household consumption*† | 0.4% | 0.7% |
| | France | Dec trade balance† | FFr6.5bn | FFr6.9bn |
| | UK | 4th qtr gross domestic product* | 4% | 4% |
| | UK | 4th qtr gross domestic product*** | 0.8% | 0.8% |
| | Canada | Dec wholesale trade*† | - | 1.5% |
| | N'lands | Dec indust production** | 7.4% | 6.9% |
| Thur | US | Initial claims w/e Feb 18 | 330,000 | 339,000 |
| Feb 23 | US | State benefits w/e Feb 11 | - | 2.52m |
| | US | 1995 real capital spending | - | n/a |
| | US | M1 w/e Feb 13 | -$1.3bn | $3.5bn |
| | US | M2 w/e Feb 13 | -$1.5bn | $5.7bn |
| | US | M3 w/e Feb 13 | -$2bn | -$0.3bn |
| Thur | Spain | Dec industrial production** | 7.5% | 9.3% |
| Feb 23 | Canada | Dec int sector transactions | - | -C$2.2bn |
| (cont) | Aus'lia | 4th qtr real priv cap expend† | 5% | -0.9% |
| | Aus'lia | 4th qtr private cap equip expend† | 5% | 3.4% |
| Fri | US | Jan durable orders | -0.8% | 1.5% |
| Feb 24 | US | Jan durable shipments | - | 1% |
| | France | Jan consumer price indx final* | 0.2% | -0.1% |
| | France | Jan consumer price indx final** | 1.6% | 1.6% |
| | France | 4th qtr gross d'stic prod prelim*** | 0.5% | 0.7% |
| | UK | Jan trade, ex-EC | -£0.6bn | -£1.05bn |
| | Canada | Jan indust production price indx* | - | 0.8% |
| During the week... | | | | |
| | Japan | Jan supermarket sales** | - | -1.3% |
| | Japan | Jan department store sales** | - | -2.4% |
| | Germany | Jan producer price indx* | 0.4% | 0.1% |
| | Germany | Jan producer price indx** | 1.6% | 1.5% |
| | Germany | Jan M3, from 4th qtr 94 base | -3% | 4.8% |
| | Germany | Jan M3, from 4th qtr 93 base | 4.3% | 4.8% |
| | Germany | Jan Ifo business climate | - | 105.9 |
| | Germany | Feb prelim cost of living* | 2.3% | 2.3% |
| | Germany | Dec trade balance | DM7.7bn | DM8.5bn |
| | Germany | Dec current a/c | -DM2.3bn | DM0.5bn |
| | Italy | Jan M2, 3-month average | 2.9% | 3% |

*month on month, **year on year, ***qtr-on-qtr, †Seas adj. Statistics, courtesy MMS International.





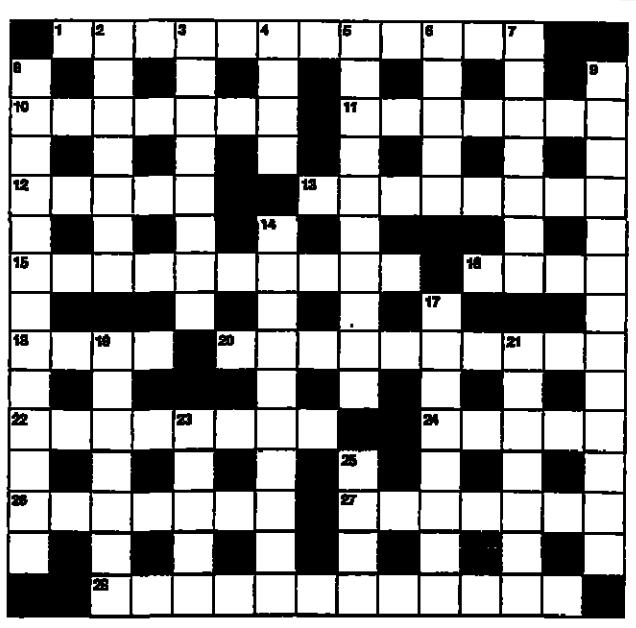
## MONDAY PRIZE CROSSWORD

No.8,691 Set by ADAMANT

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday March 2, marked Monday Crossword 8,691 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 6.

Name

Address



**ACROSS**

1 It's heard on all sides that soon the price will be fluctuating (12)
10 Flower of truth (7)
11 As over the years I make a killing point (7)
12 Rule: give up any job which has no prospects at the end (5)
13 Sit back and those hunting round will get beat (9)
15 Knowing everything about income isn't the answer (10)
16 Nothing like a duck (4)
18 Disagreement over the fir tree at first (4)
20 Is frightened about, say, your "Songs of Praise" (10)
22 A down to earth person can find the right place for a hanger on (9)
24 As father left the vegetable, back came the sweet (5)
26 See if I'd worry, provided it improves my mind! (7)
27 Missed, we hear, the bugle's warning (7)
28 Providing a lower assessment about characteristic becoming worse (12)

**DOWN**

2 The strain is rising – saw the context (7)
3 Spots the Head exhibiting unseemly haste (8)
4 Working with two unknown properties in stone (4)
5 Savage fellow with topping trophies (10)
6 Finds a home in the streets of Tyne and Wear (5)
7 Become conscious of the circulation of coins, for example (7)
8 He tells people what steps they should take....(13)
9 ....at seasonal ceremonies, as an instance (5,2,6)
14 Petrol company includes one worker who is supportive of both sides (10)
17 Vision of agreement among the crew (8)
19 Carried out bank to bank transfers (7)
21 Put on weight in the pub, when rooted to it (7)
23 Change of opinion brought victory in South Georgia (5)
25 Distant leaders of American foreign affairs representatives (4)

**Winners 8,689**

Mrs C.A. Sanderson, London WC1; Michael A. Scott, South Carolina; Mr Roger Miron, London W2; Dr M.M. Kaczmarczmk, Gloucester; Mrs Mary Smith, Peterborough; Miss Y.A.K. Andrews, Hay-on-Wye

**Solution 8,689**

```
DECODE CLARINET
J A E U A H A H
AIMLESS NAIVETE
T B D U D N V B
RARE TRAMPOLINE
I I M P A S   S
BADGER BRACKET
E G L D K O A S
 PEBBLES SPIGOT
E   A M A E E I
DRAFTHORSE ORAL
I G O C I W N E
CORSAIR DEEPEST
T E S A E A S T
SPECTATE PRESTO
```

FINANCIAL TIMES SURVEY

# EMERGING MARKETS

Monday, February 20, 1995

The long-term case for seeking growth in developing economies remains intact, says **Barry Riley**

## Taking the rough with the smooth

After a party comes the hangover. The past year has for much of the time emphasised the risks rather than the rewards of investment in the emerging markets. Fringe markets have turned out to be just that – they represent the marginal interests of many western investment institutions, and are vulnerable to swings of fashion and the tightening of liquidity. But the long-term case for seeking growth in developing economies remains intact.

Perhaps the two key cases have been China – for which Hong Kong is a proxy – and Mexico. They represent two important emerging market themes. China is the sleeping giant which may be able to transform itself into tomorrow's global economic giant, if only it has the political will and stability to do so. Mexico is the already partly reformed economy which, under the umbrella of the North American Free Trade Agreement, could yet take the step from the economic wilderness to developed country status.

Global investors – especially Americans – have invested billions of dollars in these two countries. Last year their nerves were tested, with sharp falls in the respective FT-Actuaries indices – by 31 per cent for Hong Kong and 41 per cent for Mexico, both declines expressed in terms of dollars.

The reasons differed slightly. Chinese stocks had been excessively inflated in the 1993 bull market and the market bubble could not withstand the growth of political uncertainty, given that the health of Deng Xiaoping was the subject of rumour. Mexico was the victim of a sudden financial crash just before Christmas as confidence in the currency and the government's creditworthiness collapsed; the classic Latin American problem reappeared.

A common theme, however, was the progressive tightening of US monetary policy through 1994. With the US economy continuing to grow strongly, profits were taken and capital began to be repatriated by some investors. Ironically the US stock market remained steady all year: the Dow Jones Average fluctuated within a band running just 5 per cent either side of 3,785. The US succeeded in exporting its stock market's volatility.

**IN THIS SURVEY**



But despite the recent problems in the financial markets, the economic story from most emerging economies remains highly positive. China's economy is cooling, but GDP growth is only likely to slow from 13 per cent in 1993 to 10 per cent this year. Other Asian Tigers such as Taiwan and Malaysia are holding growth at around 6 to 8 per cent, and many Latin American countries are achieving growth almost as rapid.

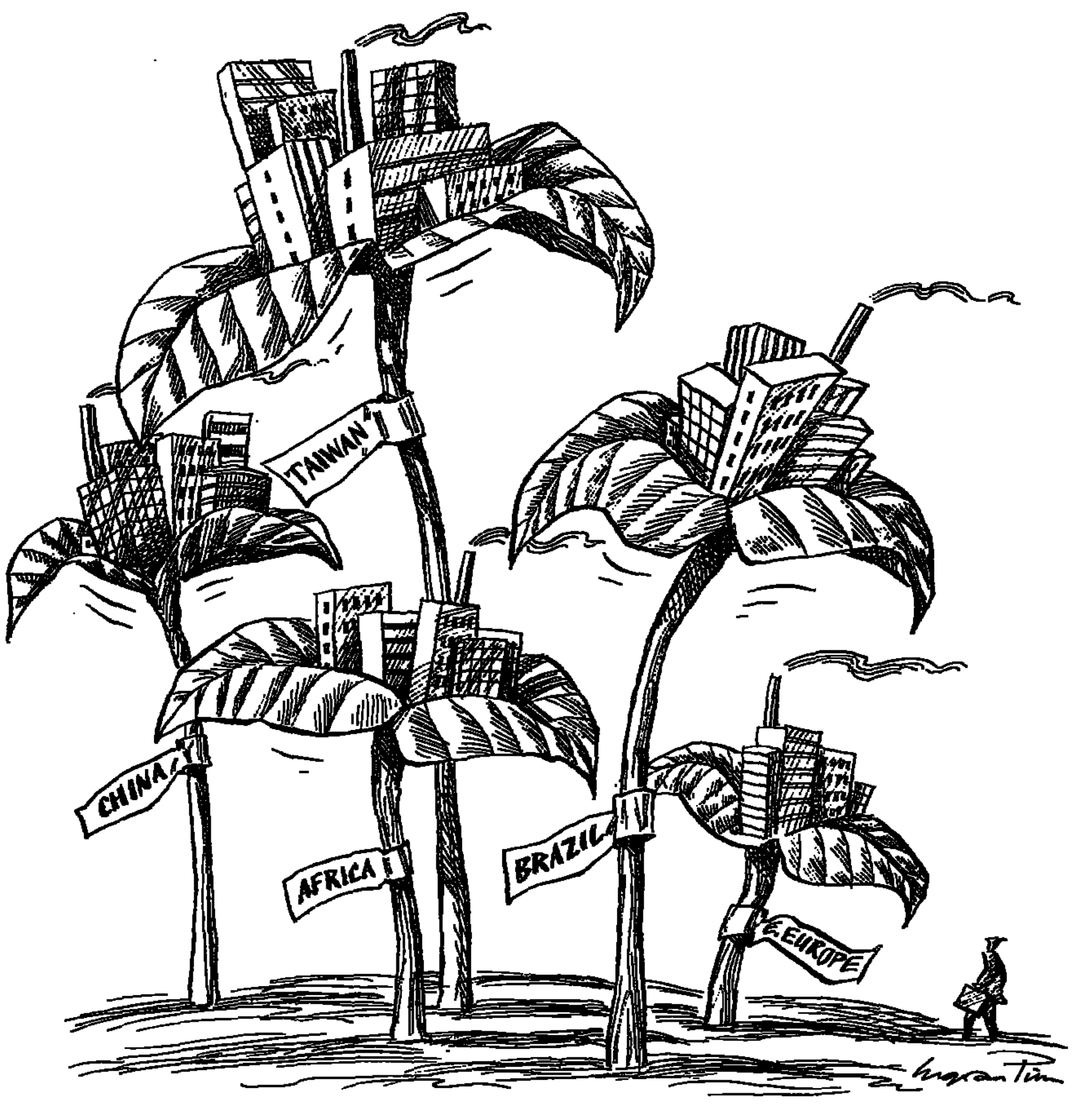
Such high growth rates form the main attraction for investors from the developed countries. True, the US and UK have been growing at 4 per cent recently, but this is a temporary burst of strength following recovery from recession.

The crucial question, however, is whether the growth will be durable. After all, Latin America has been emerging for a very long time. The first boom and bust in Latin American bonds was in the 1820s. There have been many more financial bubbles since then. But Latin America has remained backward, although during the past century countries elsewhere have taken giant strides.

Nevertheless the status of several more Asian and Latin American countries has sharply improved. One measure of enhanced reputation is the inclusion of a country in the FT-Actuaries World Index series. Mexico and Malaysia have been there for several years. Last November, Brazil and Thailand were added, too.

Previous phases of capital flows to emerging economies have focused upon bonds, in the 1920s, and bank lending, in the 1970s. The results were often unfortunate. Too much of the 1970s lending, for instance, was made directly to governments and was dissipated in unproductive projects or arms spending. Little bank lending is now extended, except to some of the more creditworthy Asian countries.

Instead, the globalisation of the world's financial system has made possible a huge expansion of other types of capital flows. According to the World Bank, foreign direct investment to developing countries has risen from $26bn in 1989 to $78bn last year. Portfolio equity investment has risen from a negligible level in the 1980s to hit a peak of $47bn in 1993. Bond issuance also jumped in the favourable conditions of 1993 to reach $42bn.




Adding together all forms of finance, annual net private sector resource flows to emerging markets have roughly quadrupled to almost $175bn during the past five years. About half of this has been channelled through the capital markets.

Recent shocks have slowed but not stopped these flows. Michael Howell, global strategist at Baring Securities in London, follows the emerging markets closely. He makes his own calculations of global equity flows, which differ slightly from those of the World Bank and its Washington-based associate the International Finance Corporation, but show the same trend.

He believes that even in the disturbed conditions of 1994 some $40bn net flowed into emerging market equities. Of this about $15bn was invested in Latin America and $15bn in the Pacific Rim, while $10bn went elsewhere – mainly to India, eastern Europe and South Africa. Even allowing for price falls in key markets the total value of emerging market equities help by western investors is probably around $200bn.

Market conditions in January this year became even worse after the Mexican upsets. The emerging markets world indices dropped by about 10 per cent in January. But Mr Howell estimates that the portfolio equity flows will still amount to $35bn in 1995.

His message is uncompromising. The shake-out is creating excellent opportunities for the brave. "Buy into chaos. But take a sober, long-term view," he advises.

Emerging markets analysts recognise that selectivity is required, however. Not all markets are the same. Mexico cracked for a good reason, in that it was relying too heavily on capital inflows to plug gaps in its budget and its balance of payments. Inflows suddenly became outflows.

The lack of domestic savings is a fundamental weakness in such economies. That is why many of the Asian Tigers, which have strong personal savings ratios, enjoy much greater financial stability. Even in South America there is the promising example of Chile, which has made great efforts to build up domestic pensions institutions.

So the recent pressures in the capital markets have begun to sort out the emerging market sheep from the goats, sometimes in a spectacular way. This has been evident, for instance, in the bond markets, where Brady bonds – reconstituted from bank loans in default – hit dizzy heights in 1993 only in many cases to fall sickeningly as the hazards have become more obvious.

The risks are being borne, however, by robust investors. This is not a re-run of the early 1980s crisis, although Mexico suffered a similar violent depreciation in 1982. The concentration of exposure in international bank balance sheets then imposed dangerous systemic risks. The banks proved to be fragile and the problems took years to be worked out.

This time investors are suffering an uncomfortable ride but most are able to absorb their losses without too much strain. There are fears that some of the weaker investors, such as holders of open-ended mutual funds, will be liable to panic. But most emerging market investors are made of sterner stuff; many will even regard this, like Michael Howell, as a buying opportunity.

INVESTMENT INSTITUTIONS

# Centre of gravity moves on

## Managers are hoping for an easier ride in the rest of 1995 as the US economy slows and dollar liquidity improves, says **Barry Riley**

The arrival on a rickety aircraft of the lone, dusty figure of Mark Mobius to explore the latest aspiring financial centre of the future is part of the mythology of emerging markets.

Mr Mobius, the emerging markets chief of the Templeton investment group, still, by all accounts, hobnobs with the backwoods cowboys on occasion, though more often in the centre of Moscow than in the wilds of Peru. But the centre of gravity of the emerging markets investment business, if not its heart, has moved on.

The latest market setbacks have knocked the industry back to some degree. But there are big markets in emerging markets' paper in New York, London and elsewhere, based on depositary receipts and a thriving primary new issue business. Most investors never go near Paraguay or Patagonia.

Peter Jeffreys, chief executive of the London research firm Fund Research, which runs a rating system for international fund managers, mentions the leading UK investment institution which in some 18 months has built up from scratch a 17-strong team of people specialising in emerging markets.

The involvement of mainstream investment institutions has made it possible for financial flows to emerging markets to attain their current scale – with total international holdings of perhaps $200bn of emerging markets equities. This is after net investment of some $90bn over the past two years; inevitably, though, 1995 will be much quieter.

A search for high performance has triggered these huge flows. They are now involving some of the biggest investment institutions around the globe. But the requirement for specialist expertise has created a wonderful opportunity for small investment managers to intermediate.

A quite sudden desire by US institutions, especially pension funds, but also including retail mutual funds, for global diversification has been a fundamental cause of the emerging markets boom. For instance, US corporate pension funds have raised their exposure to international equities from 5.8 per cent of assets in 1992 to 7.9 per cent in 1994, according to a new survey by the US consultants Greenwich Associates. By 1997 the proportion is expected to be 10.6 per cent.

This is big money on the move. Just 1 per cent of US corporate plans represents $25bn. Even though only a relatively small proportion is going into emerging markets the impact has been immense.

Part has been directed into specialist funds. However, Salomon Brothers has estimated that non-dedicated managers hold two or three times the volume of Latin American equities that specialist managers do.

*This raises fears that the less* committed managers will try to pull their money out, adding to the recent volatility.

Arnab Banerji, chief investment officer of a leading London-based specialist, Foreign & Colonial Emerging Markets, is certainly not pulling back. Around $180m has recently been raised as additional capital for the firm's flagship closed-end fund, F&C Emerging Markets Investment Trust.

He tracks 35 markets around the globe and currently invests in 25. F&C is virtually out of Hong Kong, and is currently focusing on the "storm ports" such as Taiwan, South Korea and India. These "storm ports" have low foreign participation and are consequently sheltered from the threat of US repatriation.

*F&C's emerging markets* portfolios have built up rapidly to a total of more than $3bn. However, several other UK-based institutions such as Schroders ( more than $6bn), Robert Fleming and Barings are bigger in emerging markets.

Globally, however, according to Fund Research, the volume leader at more than $10bn is the Los Angeles-based Capital Group, which was for many years rare among US institutions in developing a global expertise. Templeton was also unusual in this respect, and is now estimated to be number two.

Other important players are Morgan Stanley and Batterymarch. Also significant, for its connections with the *International Finance* Corporation, is the Washington-based Emerging Markets Management.

"Most of the major institutions are now in on the act," says Peter Jeffreys. Heavy guns are now being brought to bear on this once eccentric area of investment. "The managers recognise that they are investing at the highest spectrum of equity risk. So they put the best people on it," he says.

Whether this large input of resources will survive the bearish phase in many of the emerging markets remains to be seen.

But high volatility was always recognised to be a quid pro quo of the high underlying returns which could be obtained.

*Pension funds, at least,* ought to be able to ride out the occasional storms even if mutual funds cannot.

Considerable progress has been made towards establishing emerging market equities as a separate asset class for long-term institutions, with distinct risk and return characteristics.

The underlying appeal comes, of course, from the 5 to 12 per cent economic growth that many developing countries can be expected to achieve for decades to come. Annualised investment returns over the past decade have run close to 20 per cent on average.

Certainly Jan Kingzett, head of emerging markets at Schroder Investment Management, is unruffled by recent upsets. "Investors ignore the growth potential of emerging markets at their peril," he claims.

As emerging markets management has grown into a more mature business, managers have often shifted the emphasis away from extreme performance and have pursued a lower risk profile which they hope will be more attractive to institutional clients.

This means, says Arnab Banerji, *that strategies* have become more diversified. Portfolios are spread across more countries, and attention is paid to the weightings compared to the indices, especially the IFC Investable Index.

Although markets have been difficult over the past year the specialist managers hope that they may paradoxically gain from the setbacks. Their skills may seem more valuable after non- specialist investors have been battered by dangerous markets.

Some US bond fund managers, for instance, have dabbled in Mexican tesebonos – dollar-linked short-term fixed interest paper – in order to boost yields, on the highly premature argument that Mexico was *becoming* a mature economy increasingly integrated into that of the US under the Nafta umbrella.

Emerging markets managers hope for an easier ride in the rest of 1995 as the US economy *slows and* dollar liquidity improves. But the question is whether the nerves of investors will hold for long enough.

Peter Jeffreys notes that US mutual funds have suffered significant redemptions. But their UK counterparts in emerging markets unit trusts have apparently stood firm. "The private investor here has had good advice," he says. "You've got to take a five-year view."

DEVELOPMENT INSTITUTIONS

# Fostering business in poor countries

## The IFC and other such public agencies aim to do themselves out of a job. But they still have a fair way to go, says **Stephanie Flanders**

The International Finance Corporation has spent nearly 40 years trying to show the scope for commercial activity in developing countries. Now that so many governments and investors are discovering it for themselves, the IFC and other such public agencies face the challenge of proving that they can still play a distinctive role.

*The IFC* was established in 1956 as the private sector arm of the World Bank group, with a mandate to "further economic development by encouraging the growth of productive private enterprise" in all *World Bank member* countries. A few similar bodies have since joined them in the field, most recently, the European Bank of Reconstruction and Development, established in 1991.

*Such agencies often* collaborate, both with each other, and with the standard aid organisations. What distinguishes these private-sector oriented bodies from the latter is not the underlying mission, but *the method. All aim to foster* poor country economic development, but unlike, for example, the World Bank's International Development Agency, the IFC and EBRD are meant to practise the commercialism *they preach to their clients.*

In the case of the IFC, this means that it must charge for all its services, although, often it will be official donors, rather than the clients themselves, who foot the bill. Similarly, the IFC is not allowed to accept government guarantees and must share each project's risks with its private sector partners. The World Bank – which invests $9 for every $1 invested by the IFC – is the exact opposite in this regard: all its projects must be at least *partly underwritten by the* government of the country concerned.

The fact that projects must meet relatively tough commercial criteria partly exempts the IFC from the standard criticism levelled at the IDA and others: that aid money is simply being thrown down a black hole. At the same time, however, it raises a rather different difficulty. If all of their projects are indeed commercially viable, why do private sector financiers need IFC-style hand-holding in order to exploit them?

For much of the post-war period, there was a clear answer to that question: western investors were indeed scared to invest in poor countries, for a mixture of good and bad reasons. Widespread poverty, political instability and government intervention raised the risk that investors might not be allowed to repatriate their profits. Yet the developing world was sufficiently cut off from world capital markets that investors rarely explored whether such profits could even be made.

Although dwarfed by its *elder sibling, the World* Bank, the IFC can claim to have provided an important service in bringing equity and loan finance to projects in developing countries that private banks would not touch. By 1994, the IFC had provided more than $14bn in financing for nearly 1,300 companies, in 109 countries. Of this, a full $2.5bn, in 65 countries, came in the fiscal year 1993-4 alone.

Such projects have a dual *purpose, intended not merely* to boost economic activity in the countries concerned but to provide an example for other investors – domestic and foreign – to follow. The IFC's South Korean country investment fund, for example, established in 1982, has been widely imitated by developing market investors as a way of pooling investment funds for particular countries.

The EBRD has a similar brief to the IFC, although it ought to close shop rather sooner. It has pledged to disappear when it can no longer make a useful contribution to a particular process: the development of a market system throughout the old Soviet bloc. But some say that the flood of *private investment into the* region means that it is already falling into irrelevance: a fate that awaits the IFC.

Like the IFC, the EBRD must operate on a strictly commercial basis, using projects to attract companies to up-and-coming countries without, at the same time, competing with those who are already looking to invest. But the "emerging market" phenomenon can make it difficult *to achieve one without the* other. Certainly, it is difficult to argue that investors have somehow missed the fall of the Berlin Wall.

One response to this is that there are still plenty of countries *and sectors that investors* shun. Fully two thirds of the $12bn of foreign direct investment in EBRD client countries 1990-93 went to just three of them: the Czech Republic, Hungary and Slovakia. Albania, for example, received a scant $39m in FDI over the period compared to the $5.4bn invested in Hungary.

The same applies even more forcefully in a global context. More than 75 per cent of foreign direct investment in developing countries remains concentrated in only 10 countries. The IFC, and others, can justifiably argue that there is plenty of work for them to do.

Part of that work will involve filling geographical *gaps in the market, and signalling* to investors that a country has become a more viable investment site. The IFC's plans for a series of investment funds in the Occupied Territories of the West *Bank and Gaza clearly fall* under this head.

In countries with less hopeful prospects, a lack of viable projects may continue to prevent even the development banks from making headway. *In Albania, for example*, the EBRD approved a total of only Ecu24m, in 6 projects, over the years 1990-3 came to Ecu24m, compared to total project financing of Ecu3.7bn over the period (and 156 projects). Sub-*Saharan Africa* presents a *similar* problem for the IFC. By 1994 the region was home to $813m of the IFC's $7.9bn investment portfolio, compared to more than $3bn invested in Latin America and *over $2bn in Asia.*

Neither the IFC nor the EBRD can invest much in barren soil. But they spend an increasing amount of time advising countries on microeconomic institutions that *could make it more fertile.*

The IFC's Risk Management Service is another growth area: developing country companies often lack both the credit rating and expertise needed to use the global swaps *market to hedge currency and* other risks. The service shows that the liberalisation of world capital markets can increase the demand for institutions such as the IFC, in certain areas, at the same time as reducing it in others. Their mission, of course, is to do themselves out of a job in *all* of the world's markets. But they have a fair way to go.

PRIVATISATION

# Sell-off programmes set for acceleration

## Privatisation revenues are helping many countries to *balance their budgets, says* **Richard Lapper**

The governments of several developing countries seem set to accelerate their privatisation programmes this year, putting increasing pressure on international capital markets. Although the enthusiasm of international investors for the emerging markets has evaporated recently in the wake of the financial crisis in Mexico, there *are hopes that a rise in direct* investment could compensate for any decline in portfolio flows.

Last year the enthusiasm of governments from Latin America, Asia, Africa and Latin *America for privatisations* was undiminished. Governments from the emerging markets raised a total of $17.57bn, about $2bn more than in 1993, according to figures compiled by Privatisation International, the *specialist monthly magazine.*

Highlights last year included sales by Pakistan and Indonesia of telecommunications companies in two of the biggest single deals. Each country raised more than $1bn from *several privatisations,* while China raised $2.1bn.

In Latin America the enthusiasm for privatisation is still considerable with Peru taking up the running from pioneers such as Chile, Mexico and *Argentina. Sales of government* assets in Peru netted $2.9bn in 1994, compared to only $91m a year previously. Argentina raised a total of $907m bringing its total privatisation proceeds since 1992 to *more than $11bn.*

Elsewhere, sales by governments in Africa and the Middle East raised a total of $2.1bn, compared with just $683m in 1993. And eastern Europe and Russia sold off assets of more *than $3bn in 1993 and 1994*, even though many of its privatisation programmes have been slow to materialise.

Increasingly, governments from across the political spectrum have been won over by arguments for privatisation.

On the one hand the successful privatisations implemented in countries such as Chile and Argentina are a demonstration of what can be achieved and are directly influencing other governments.

"The general principle is not much in dispute," says Will *Kaffenberger, vice-president* for operations at the International Finance Corporation (IFC) in Washington. "You are trying to depoliticise a commercial asset, get it subject to the rules of the market place *and generate efficiencies.* There is enough of a track record now to show that this can be achieved."

Mr Kaffenberger says that increasingly questions of implementation are beginning *to dominate the debate about* privatisation. The main issue is the ability of governments to overcome political opposition. Vested interests range from the public sector management embedded in state-run businesses to trade unions whose members in overstaffed companies are threatened by the prospect of job cuts.

This process has been easier in Latin America, because vested interests are in general terms weaker than in either eastern Europe or Asia. In addition, the continent's private sector is relatively well-developed.

Increasingly financial pressures *are forcing the issue in* favour of the privatisation process. Budgetary pressures are forcing governments to accept the necessity of sell-offs. For a number of countries revenues from privatisation are an *important element in the fiscal* equation.

"Developing economies have discovered the allure of privatisation is restoring international confidence and budgetary balance," says Richard *Segal, an economist at Bank of* America in London.

There were some well-publicised setbacks for privatisers early this year in such countries as Hungary, where plans to sell a local hotels group to US investors were withdrawn amid some fanfare. However, at the same time several countries have announced ambitious privatisation plans.

■ In response to its financial crisis, the Mexican government announced in early January that it is to increase the pace of its privatisation efforts. *Among disposals planned* are the sale of a 23 per cent stake in Bancomer and the sale of toll roads. Overall, Mexico is aiming to raise up to $14.5bn from its privatisation programme this year.

■ *The inauguration of* President Fernando Henrique Cardoso in Brazil is expected to give some impetus to the country's privatisation programme. Meridional Espirito Santo, the federal bank, Escelsa, the state *power utility, RFFSA, the* railway company, and Copene, a petrochemical concern, are among the companies to be privatised in the first half of 1995. The government is also considering the possibility of privatising Vale do Rio Doce, the mining company. Brazil raised $2bn in its privatisation programme in 1994 and a total of $9bn since 1991.

■ Turkey resumed its long-delayed privatisation efforts in early January, with the government's announcement that it will sell majority stakes in two small state companies.

■ The Russian privatisation programme – one of the most radical and far-reaching in the *world – is still on course,* despite threats by the minister of privatisation to renationalise swathes of state industry in early January. Significantly Vladimir Polevanov was sacked as privatisation minis*ter in early January. His place* was taken by Pyotr Mostovoi.

■ Argentina announced in early January that in 1995 it hopes to raise $3bn from a programme of state sell-offs. Targets include hydroelectric, *nuclear and petrochemical* plants.

Overall, Bank of America estimates that likely receipts in privatisations from these five developing economies could amount to more than $15bn.

The subdued state of many emerging stock markets could

Continued on next page

# Economic prospects dimmed

**Events in Latin America have raised fundamental questions in the minds of investors about the wisdom of investing there. *Stephen Fidler* compares the effects of the Mexican fall-out on countries in the region**

Mexico's currency crisis has dimmed expectations for economies throughout Latin America in 1995 – and depressed prospects for the region's financial markets.

The widespread falls in the region's financial markets that followed the surprise devaluation of the Mexican peso on December 20 led to frenetic

EMERGING EQUITY MARKETS

LATIN AMERICA

attempts from some Latin American governments to distinguish their own economic performance from that of Mexico.

The crisis and the border war which flared up in January between Peru and Ecuador have raised some fundamental questions in the minds of investors about the wisdom of investment in Latin America. Given the losses they have suffered, some may well retire from the region for good.

It raises questions, also, for economic policy: about whether more governments

**Latin American countries are more vulnerable to capital flight than their Asian counterparts**

will decide to impose controls on short-term capital movements and whether some will see in Mexico's problems a reason to avoid the economic orthodoxy of which Mexico was long a vocal proponent.

It should also reinforce to policy-makers the relative stability represented by foreign direct investment – as opposed to portfolio investment – and the importance of efforts to reinforce domestic savings and thereby reduce dependence on foreign capital.

Latin American countries are significantly more vulnerable to capital flight than their Asian counterparts. According to James Capel, portfolio investment exceeded more stable direct investment by a factor of three in 1993 while the ratio in Asia was around 0.7.

In Mexico, financial markets had been nervous for some time over the size of the country's current account deficit – approaching 8 per cent of gross domestic product. This deficit was widely perceived as a function of an overvalued exchange rate.

The problem was compounded by what in retrospect appears to be inappropriately lax monetary and fiscal policy during 1994 for the country's fixed exchange rate regime. The subsequent crisis was worsened by a bungled devaluation and the sharp build-up that had been tolerated in domestic debt being held by foreigners.

The Tequila Effect, as it was called, was felt most strongly in Argentina and to a lesser extent Brazil, which like Mexico, were using a currency peg to help bear down on inflation. Chile's strong domestic savings rate has reduced its need for foreign capital and insulated it from the worst of the fall-out from Mexico.

Colombia's finance minister, Guillermo Perry, has said that a slowing of the inflows into his country following the Mexico crisis provided some relief. Colombia's stock market was unique in being unaffected by January's events.

Argentina's currency board system – where domestic money can only be issued if backed by foreign exchange reserves – appears more resilient than Mexico's crawling peg system. It also rules out the monetary expansion that pre-dated the Mexican devaluation. It has also enjoyed stronger growth in recent years than Mexico and ran last year, at 3.5 per cent of GDP, a smaller current account deficit in both relative and absolute terms.

Some $1.6bn flowed from the country in January, in part due to seasonal factors. By the end of the month, some reflow of funds was in evidence.

However, with the uncertainty inevitably posed by a presidential election in May, worries about parts of the banking system, and some $6.7bn of maturing public and private sector debt in foreign markets this year, investors find it hard to feel enthusiastic about the country. According to Ms Philippa Armitage, who manages Latin American equity investment at Fleming Investment Management in London: "We know the best news; looking forward there are lots of questions."

She and other equity investors appear more positive about Brazil, where price-to-earnings ratios of 11-13 are still relatively low and domestic industry is enjoying strong growth based on the boom which has followed the successful initial stage of the Real anti-inflation plan. The parallels with Mexico have, however, raised the issue of the longevity of an anti-inflation plan which depends in part on the strong exchange rate.

The government was insisting that the parallels with Mexico were overdone; that the country still appeared to be running a trade surplus and that, after outflows in November, December and January, capital inflows had once again resumed. However, as the London stockbroker Stephen Rose said recently: "Although it is widely accepted that Brazil is fundamentally different from Mexico, this has not been a time for fundamentals."

For Mexico itself, the year ahead will be an uncomfortable one in the best of circumstances. While the country's International Monetary Fund programme envisages 1.5 per cent growth for 1995, this looks optimistic to those economists who reckon an economic contraction is more likely.

Even assuming that the

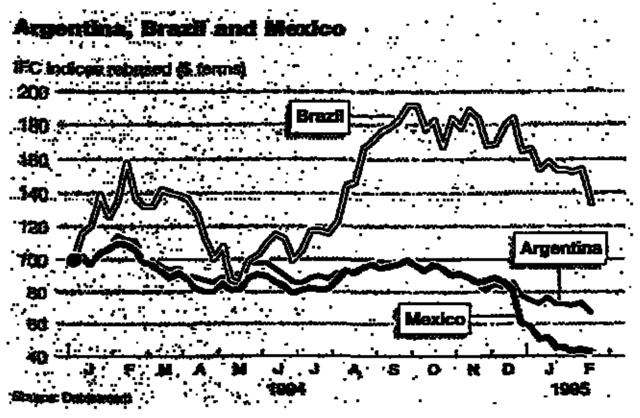
**For Mexico, the year ahead will be an uncomfortable one in the best of circumstances**

$50bn international rescue package for Mexico succeeds in staunching the outflow of foreign capital from the country, it will not rescue the economy. High interest rates, reduced private consumption and investment and lower government spending all suggest economic weakness and a poor outlook for corporate earnings.

The best case would see an initial burst of devaluation-induced inflation quickly dissipating, paving the way for a significant boost in competitiveness of Mexican industry and a surge in exports. Yet, even if this happens, any increase in exports will take time to emerge and may only get up steam when Mexico's main export market, the US, is itself suffering economic weakness.

While from a foreign investor standpoint, the Mexican stock market has fallen sharply in the past two months, this was mostly accounted for by the devaluation. In peso terms, the market's fall had been more modest – perhaps too modest in view of the deteriorating economic outlook – and for that reason, optimists about the Mexican stock market have been few and far between.

**Argentina, Brazil and Mexico**




Source: Datastream

Prospects for the fixed interest markets may be better in Mexico and elsewhere in the region, according to some fund managers – provided the assumption persists that Mexico will not default on its debt. "You're being paid for the risk right now, and you weren't before," said one fund manager in London.

Some corporate bonds issued by essentially healthy companies – such as the cement giant Cemex – were trading at default levels earlier this month and likely to entice some buyers.

Moreover, after last year's declines in the prices for Brady bonds – issued by governments in place of restructured bank debt – some investors were beginning to focus on the collateral these bonds carry to protect principal and often some interest payments. For some Brady bonds, this collateral was valued at almost half the bonds' price.

EMERGING MARKET FUNDS

# Brazil is leader of the pack

***John Pitt* discusses the performance of funds in a year when the overall climate, by comparison with 1993, was bearish**

Brazil was the country fund to be in during 1994 as the country's equity market was pulled ahead by a positive political and economic climate.

At the other end of the scale, funds exposed to China showed that the time was not yet ripe for investment given an environment beset by high inflation and worries over what would happen when Deng Xiaoping, the country's senior leader, reported to be seriously ill, died.

The overall climate throughout the year was, by comparison with 1993, bearish. Nevertheless, the tremendous returns seen in 1993 encouraged "hot money" – investment from individuals seeking a quick profit – to continue entering fund portfolios, particularly in the US.

Baring Securities estimates that some $200bn in emerging market equities were held by foreign investors at the end of 1993. While that figure is expected to have shown a substantial reduction in 1994 the sums involved remain substantial.

John Legat, emerging markets portfolio manager at GT Unit managers, said that the trick to investment during 1994 was to underweight the so-called dollar bloc emerging markets, countries which are closely tied to the US business cycle, and to overweight the non-dollar bloc, countries such as India, sub-Saharan Africa, eastern Europe, and Brazil, which are perceived as de-regulating. The strategy of GT this year was to maintain that approach.

Accordingly, GT has a 35 per cent weighting in both Asia and Latin America – with Brazil accounting for 20 per cent of that – and 24 per cent in Europe, the Middle East and Africa.

So far at least, repercussions for the crisis in Mexico have not filtered through into significant fund redemptions.

A recent Micropal survey of Latin American open-ended funds has revealed that while funds invested in Latin American equities lost about a fifth of their value during the last two months of 1994, there were but few signs of redemptions. And this in a period which saw the asset values of funds fall by some 20 per cent.

According to the survey, by the end of October the total invested in Latin American open end equity funds was just over $6bn, a figure which had fallen to $4.8bn by the end of December, largely as a result of the steep declines in the region's equity markets.

Mark Mobius, who manages the $7bn Templeton Emerging Markets Fund, said earlier this month that so far he, too, had seen no redemptions of holdings. However, he observed that following the crash in October 1987 it was not until January 1988 that some net redemptions came through, although this only lasted for about a month, after which inflows resumed. A similar time lag might be expected this time round, he suggested.

S.G. Warburg Securities also feels that the impact on portfolio flows, particularly from the US, will be less than some fear. This assessment is based on the fact that US investors did not invest that much into Mexico as a proportion of total holdings, estimated at about 5.5 per cent of total overseas portfolio flows.

In addition, Warburg strategists tend to agree with the assessment of Mr Mobius, that US mutuals may well take a longer time view, and stick it out during the present volatility.

Independent Strategy, a global investment research consultancy run by David Roche, has noted a number of lessons applicable to fund managers that could be learnt from the Mexican crisis. "Financial markets will only truly emerge if the economy is successfully restructuring. Mexico has proven that some markets will submerge if they do not. The recent crisis may come and go, but we are convinced that it will change emerging market investment profoundly, purging it of the excesses of a fad.

"It is just like what happened to the hedge fund craze in 1994. And that is healthy. That means that emerging market investment will go through a cleansing stage when some 'babies are thrown out with the bath water'. That will provide buying opportunities. Ultimately, emerging market investment will re-estab-

Continued on page 4

# Privatisation may be accelerated

Continued from page 2

make public share offers more problematic than they were last year. More than $50bn was raised in international share offerings in 1994, with much of the money channelled into European and emerging market privatisations.

Across the board bankers are expecting the volume of equity issuance to subside this year, partially because US fund managers in particular have reduced the amounts they are prepared to channel towards overseas equities. However, it seems possible that an increase in privately-negotiated deals involving either direct investment or private placements to investment funds could partially compensate for the shortfall.

John Knight, head of European mergers and acquisitions at Chase Manhattan, says that corporate interest in emerging market privatisations is "cautious but unabated. We are not seeing the trade purchasers shying away".

Chase is principal adviser to the Turkish government to sell off oil refineries and petrol stations, an industry with a turnover of about $5bn.

It says it has seen no fall-off in interest from the world's oil companies, who tend to take a 15 to 20-year time horizon when examining these kind of opportunities.

Moreover, the fall in prices on the markets by making many assets cheaper could increase the volume of activity. "There are tremendous buying opportunities at the moment," says Mr Knight.

In addition, many emerging market equity funds are likely to buy through private placements in companies – in the expectation that an initial public offer may follow once prices recover.

# Waiting for the good times

## Although there is no sign of a severe slowdown in earnings, few investors are keen to put new money into the region, writes Peter Montagnon

Last year was not a good one for the emerging markets of south-east Asia. While the outside world remains mesmerised by the region's rapid growth prospects, stock markets generally fell.

Thus Hong Kong finished the year 31 per cent down, Malaysia shed 21 per cent, Indonesia 20, Thailand 19, Singapore 14 and the Philippines 13 per cent. This is in striking contrast to earnings growth rates which in every case were in double digits and in the case of the Philippines more than 30 per cent.

The reason for the disparity is obvious. After the US Federal Reserve started raising rates in February the flow of funds from the US began to dry up. Though actual redemptions from mutual funds have been less than many feared, few investors are keen to put new money into the region. Worries about emerging markets in general after the Mexican crisis have only served to add to the problem in early 1995.

The question facing the markets of south-east Asia is thus when and whether the fundamental strengths are going to have a chance to show through again. Few brokers are particularly sanguine in the short run.

There is no sign of a severe slowdown in earnings in most markets, though the prospects in Hong Kong have waned somewhat as strains have begun to appear in the property market. These could be exacerbated if political and economic problems in China cause pressure on the Hong Kong dollar, necessitating a sharp rise in interest rates.

EMERGING EQUITY MARKETS
S-E ASIA

But the snag for Asia is that investors are becoming less preoccupied with earnings growth now that interest rates have started rising again, and more concerned with yield. Asian stocks do not traditionally trade on yield. They are bought by investors looking for *capital appreciation.*

Asia will have little to offer if the bond markets become fashionable among international investors as inflationary fears in the US abate. The great irony is that in many cases Asian equity markets look good value on fundamental grounds.

Admittedly Malaysia faces some earnings slowdown and a period of rising interest rates as credit is tightened to ward against inflation, but earnings growth should still be in the mid teens. Neighbouring Thailand looks in better shape to sustain high earnings growth.

Indeed, with economic output expected to rise by around 8.5 per cent this year and inflation rate under control it is *surprising that foreign exchange speculators* took a swipe at the baht in January as markets generally became nervous about the impact of the Mexican crisis.

The reason is that Thailand and Indonesia, whose currency also came under attack, rely heavily on foreign borrowing. Though Thailand's debt service ratio is relatively low at around 9 per cent, nearly half its $36bn short-term bank borrowing is short term. Indonesia's foreign debt at $100bn is as big as that of Mexico, a sizeable proportion is denominated in appreciating yen and its debt service ratio, according to Salomon Brothers, is more than 30 per cent.

None of these ratios is as *strained as those in Mexico* became before the crisis there, but the fact that the ripples did spread to Asia are a reminder that some at least in financial markets are now focusing on weakness as well as strength. That will make it harder for equity markets around the region to attract the flows of foreign capital commensurate with the earnings performance of quoted companies.

*One particular loser* could be the Philippines which out-performed other Asian markets last year. Some brokers expect that earnings there will grow by around 25 per cent this year as the economy continues to recover under the Ramos reforms. Again, though, there is a weakness. The country is only just out of years of debt problem and the government has been haggling with the International Monetary Fund about monetary targets.

Similarly, investors are looking more closely at political risk. The Malaysian election expected this year may actually help the equity market.

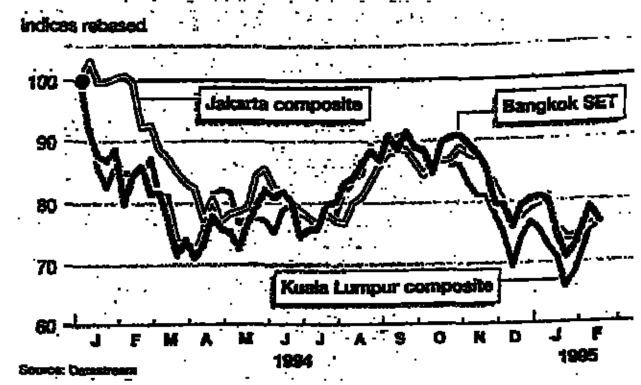
Judging the attraction of Asia's emerging markets this year means looking as much at likely perceptions among investors as at the fundamentals. The start of the year featured a flight to quality in markets worldwide. If that continues it could be Singapore which stands to benefit among Asian markets.

But markets which are larger and more liquid may also suffer most at times of turbulence. That is part of the reason why Hong Kong is prone to bouts of weakness. With a capitalisation of US$272bn at the end of last year it is easily the largest market in the region outside Japan.

As for those markets which have yet to emerge, such as Vietnam, Cambodia and Burma, the shift in international sentiment may set their chances back. While some business has been done by country funds with venture capital to invest, even Vietnam is some way from developing a thriving equity market. Where portfolio investors are concerned, it may remain a while longer beyond the fringe.

Indonesia, Malaysia and Thailand

Indices rebased




Source: Datastream

# Brazil is pack leader

Continued from page 3

lish itself as more of a science founded on fundamentals, than a fashion based on fantasy."

Peter Jeffreys, managing director of Fund Research, noted that the funds that performed best during 1993 were, in some cases, among the worst performers last year.

Using data supplied by Micropal, he calculated that in the Asian region, JF Asean, ranked first out of 146 funds in 1993 with a gain of nearly 215 per cent, was ranked 177th out of 188 funds last year, while *among global funds, the best of* the 1993 performers out of a total of 74, Buchanan Emerging Markets, ended up 53rd.

In Latin America, the situation was not so bad: Schroder Latin America, top in 1993 out of 45 funds with a gain of 84 per cent, was ranked 15th last year out of a total of 63, showing a loss on the year of just under 1 per cent.

On a one-year view the best Asian regional fund was Regent Pacific Hedge, with a gain of 20 per cent; in Latin America Latinvest, came out *the winner, putting most of its* cash into Brazil, and thereby taking advantage of that country's excellent performance.

Fund Research has developed a consistency ratio, which takes a longer-term view, showing performance compared to other funds in its sector, thereby aiming to be more reliable. Using this criteria the City of London Emerging Markets came out top among global funds in 1994, closely followed by Morgan Stanley Emerging Market Fund and Schroder Emerging (Commingled).

Looking ahead, Jim Mellon of Regent Pacific said asset allocation was now more important than stock selection. Emerging markets were *becoming distinct entities* which could move independently of one another.

He agreed with Mr Legat that the most important distinction in 1995 would be between the US and non US blocks. As a fund manager he was interested in Korea and Taiwan. In Taiwan, foreign investors are able to invest in locally-listed closed-end funds, but he forecast that by December nearly all funds would be open-ended and index-tracking.

Regarding Russia, often perceived as being the place to *invest in 1995, Mr Mellon said* the biggest barrier was the lack of a central depository. However, such a facility was expected to be ready by May.

# A chance for brave investors

## Markets are unlikely to settle until the leadership issue is resolved – and that may take some time, says Tony Walker

Investors in China's markets are likely to face a continuing test of nerve as political and economic uncertainties buffet confidence.

China's markets are also being caught up in the backwash from unsettled emerging markets worldwide.

But in China itself, it is political worries surrounding the last days of senior leader Deng Xiaoping that are weighing *most heavily. Markets are* unlikely to settle until the leadership issue is resolved – and that may take some time.

Concern about economic policy in the light of present political uncertainty is also proving a heavy burden on the markets which have lost about 50 per cent of their value since the highs of early last year.

Since China instituted a credit squeeze in mid-1993 to wring inflation from the economy, many companies have experienced difficulties, leading to a build-up of inter-company debt. *China's so-called* debt-chain reached Yn600bn ($70.5bn) at the end of last year.

While listed companies may be performing well in a difficult market few have been able to avoid getting caught up in the triangular debt problem. Profits for 1994, as a consequence, are expected to be down across the board. Indeed, analysts in Shanghai have been revising profit forecasts downward.

Thus price earnings ratios

EMERGING EQUITY MARKETS
CHINA

for China's B and H shares (H shares are mainland companies listed on the Hong Kong exchange) are being re-calculated. The B share market has been underpinned to an extent by expectations of high real earnings growth.

Richard Graham, chief representative in Shanghai of Barings Securities, summed up the view among analysts: "This is *not likely to be a very good* year for the economy in general and the capital markets in particular."

Officials of the Shanghai stock exchange, the larger of China's two exchanges, are pinning their hopes for a livelier market on the resumption of new listings of A shares for local investors after their suspension last year, but judging by the chilly reception given to the first of the new listings this year – Zhongshan Torch – these expectations may be over-optimistic.

Stock market regulators in *Beijing last year deferred* Yn5.5bn of new listings in an effort to avoid overloading the flagging A-share market. They also sought to enliven markets last August by a series of pump-priming measures including making funds available to securities companies for share purchases; but after driving the A-share market up to a high for the year of 1092.85 on September 13, it quickly subsided.

On the eve of the Chinese lunar New Year festival in January the A-share market was trading between 500-600, with the B market for foreign investors hovering around 52 points, 50 per cent down on their highs of last year.

The Shanghai exchange is also planning about $1bn worth of new B-share listings this year at the rate of about 10 new companies each quarter. This would boost significantly B-share market capitalisation from the current $1.4bn. It would also more than double the number of B-share counters from 33; but whether the present fragile market could sustain such a rate of new listings is debatable.

Among other factors bearing down on the equity markets are continuing concerns about a weak regulatory environment. Delays in promulgating a Securities Law have not helped the markets. Likewise, persistent reports of insider trading cases have not done much for investor confidence.

One bright spot for the Shanghai stock exchange is continuing buoyant trading in the bond market as investors seek the safer haven of China's treasury bonds. According to an official Xinhua news agency dispatch transactions in the bond spot, futures and re-purchasing markets exceeded Yn1,000bn ($116.2bn) last year – more than 150 times the figure for the previous year.

Looking forward, Mr Graham of Barings says that the first half of 1995 "certainly has the makings of an annus horribilis ... we have to keep our fingers crossed that things will improve in the second half of the year."

He blames the authorities partly for undermining confidence in the markets by encouraging people to place their money elsewhere – in bonds to fund the budget deficit and on deposit. "The trend is good business for banks, but it does not represent a very good utilisation of savings by the country," he says.

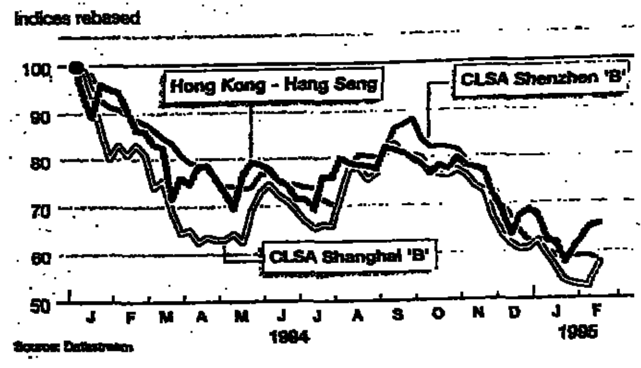
Only about 10 per cent of private savings in China are in the stock market, and there is unlikely to be a rush back to the market for the time being.

The outlook for B-shares appears no better than that for A-shares at present, especially in view of the fact that Japanese investors are deserting the market along with Chinese worried about Deng's health. China Funds, which typically have about 20 per cent of their funds invested in B-shares, are waiting for better times. Trading is in any case constrained by an "illiquid" market.

But for the brave-hearted the time may be approaching when the China markets provide an opportunity to, as Mr Graham says, "catch the bounce which is bound to happen sooner or later. Confidence and sentiment are at their lowest ebb. This just might be a superb moment for the brave investor". Then, again, it might not.

China and Hong Kong

Indices rebased




Source: Datastream

EQUITIES

# High flyers come down to earth

**Michael Morgan** looks at the world markets and finds that Finland recorded a 51 per cent surge with South Africa in second place

Many of the world's big, well-established emerging markets, the high flyers of 1993, faltered last year and returned to earth with a bump.

Malaysia and Hong Kong, the first and second best markets in 1993, found themselves among the world's worst performers last year.

Malaysia, up a staggering 126 per cent in 1993 in dollar terms, as measured by the FT-Actuaries World indices, fell by 19.6 per cent last year as worries emerged that the rise had been too far and too fast and foreign investors decided to cash in their profits.

Hong Kong, a 121 per cent winner in 1993, gave up 33.4 per cent last year as Japanese banks and brokers turned from bulls to bears and advised clients to switch out of the market. Rising US interest rates, the risk of a hard landing for the Chinese economy and uncertainty about the outlook for China in a post-Deng era also took their toll.

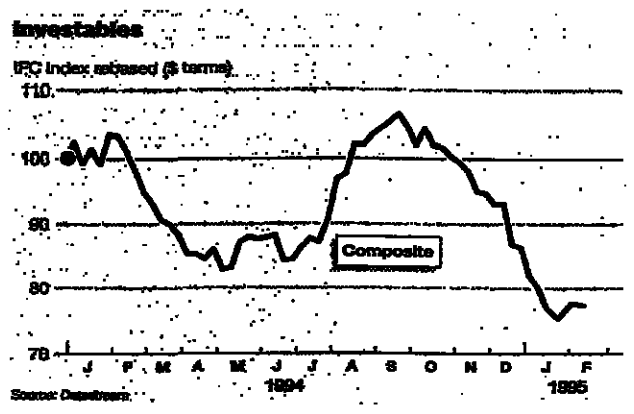
Only Mexico put in a worse performance, losing a massive 40.7 per cent as the country took a rocky route to August's general elections and the subsequent currency devaluations brought a collapse in international investor confidence.

That is not to say that last year's news was uniformly bad for the well-established emerging markets. South Africa recorded a 26 per cent rise in dollar terms, second only to Finland's 51 per cent surge, in the FT-A World rankings, as the radically changing political climate prompted an international reassessment of its investment prospects.

European funds, which had began flowing in after Nelson Mandela was released from prison, were augmented by American money at the beginning of 1994 as the last of the US city, county and state restrictions on pension fund investment in South Africa were lifted. There was also the appearance of specialist funds for South African investment by several leading US money managers in response to Mr Mandela's installation as president. The decision to add the Johannesburg Stock Exchange to the International Finance Corporation's premier emerging market list last November and and news that it will join the IFC's emerging markets composite index at the beginning of April, also played a part.

Blakeney Management, a London-based adviser to emerging market funds, underlines the point that 1993 was a year when spectacular returns were achieved in the big emerging markets, capable of handling the $40bn of foreign money that broke on to their shores. Liquid bourses such as Hong Kong, Turkey, Indonesia, Malaysia and Thailand, more than doubled while smaller markets languished, too small to attract attention while there was easy money to be made in the markets that were turning over $1bn a week.

But last year was different. "When rates moved up," says Miles Moreland at Blakeney, "the money began sneaking home and the big markets sagged." All the fashionable 1993 markets had poor years. With the exception of Brazil, the perennial maverick of the emerging markets, the only liquid emerging markets that were up in 1994 were those that foreigners had not been able to pour big money into in 1993:




Taiwan and Korea, both of which only allow foreign investors a foot in the door, India, whose regulatory bureaucracy kept the foreign investors away for most of 1993, and South Africa, politically off limits until the spring of 1994.

But among the smaller African and Arab markets that Blakeney follows, Egypt surged by 154.1 per cent last year, Tunisia by 109.9 per cent and Ghana was 64.7 per cent higher. In the coming year, it rates Cote d'Ivoire, Cyprus, Egypt, Jordan, Oman and Zimbabwe, all of which, it says, could go up by more than 50 per cent. It notes that Morocco, Tunisia and Ghana have all had big moves but there could still be opportunities. Its enthusiasm for South Africa is over, at least for the time being while the wild cards, Lebanon and Syria will, it says, be easier places to make big money than Vietnam or Cuba.

Elizabeth Morrissey, managing partner at Kleiman International, the Washington-based independent consultancy, says that in part, last year's problems in Asia and Latin America were the result of investors forgetting the risk-reward element of the emerging markets, which tended to react to developments like a rise in US interest rates more dramatically than established markets.

She also points out that, overall, the strongest performances among the emerging markets last year were recorded by the lesser known countries of north and sub-Saharan Africa. Many of these countries benefited from an upturn in interest from foreign investors, along with domestic successes with privatisation, liberalisation, economic growth and lower inflation. Ms Morrissey reckons that these markets have further to go this year.

A new study from Kleiman charts their robust performances in 1994. Kenya's index was up 80 per cent as the market looked forward to this January's opening to foreign investors while Cote D'Ivoire jumped 60.5 per cent on good export earnings and economic recovery in the aftermath of the early 1994 CFA currency devaluation.

Botswana advanced 12.3 per cent on new listings and lower inflation while Zimbabwe gained 21 per cent in dollar terms after a fourth quarter setback as the market absorbed a flurry of rights offerings. Swaziland, with only four listed companies, saw a strong performance in the final quarter taking the annual rise to 30 per cent.

North Africa boomed as privatisation listings in Egypt, a massive 151 per cent higher, and Morocco, 36.75 per cent ahead, fuelled local and international enthusiasm. Tunisia was 101 per cent higher.

At Foreign & Commonwealth, Arnab Banerji rates Brazil again this year, noting that it has so dramatically reduced inflation in recent months that it now looks as through it is really going to fulfil the proposed political and economic reforms. He believes the market is sharply undervalued and looks for growth in Brazilian equity values this year of 60 per cent and more.

Mr Banerji also likes the look of Cairo, which back in the 1960 was one of the world's busiest bourses and is now reawakening. He expects a rise of 100 per cent in 1995.

Bangladesh, he says, is another market with very low valuations. It has inflation of 3 per cent a year with three-year growth of 5.5 per cent a year.

Finally, Mr Banerji points to Russia, where, he says, immense resources and need for modern infrastructure present extraordinary growth opportunities.

"Almost everything is undervalued," he says. "Russia's potential is difficult to quantify but we believe that returns of up to 200 per cent are conceivable in 1995."

# Caution curbs rush to invest

Many fund managers believe that India has some of the best potential of any large developing country, says **Stefan Wagstyl**

International fund managers who rushed into India in 1994 are approaching 1995 with much greater caution.

But the country is expected to become a permanent fixture in the calendars of international investors interested in emerging markets.

Many fund managers believe that India has some of the best potential of any large developing country – though that potential may take time to realise.

The case for India is easy to make. It is the developing world's second largest economy after China. Its 880m people offer huge markets, a large pool of cheap labour and many highly-skilled managers, engineers and technicians. Unlike China, it has most of the basics of the capitalist economy in place including a solid legal code, banks and an active stock market. Indians speak English, the language of international commerce. The pro-market economic reforms launched in 1991 by PV Narasimha Rao, the prime minister, are steadily removing the restraints placed on free enterprise in the previous 40 years.

However, turning all these advantages into economic growth and stock market gains is not so simple. India's agriculturally-based economy remains vulnerable to natural disasters. Mr Rao owes much of his economic success to a succession of good monsoons. One bad year may not bring famine but it could certainly hold back growth, spark inflation and drive down equities. Also, the recent state election defeats suffered by the ruling Congress (I) party, have raised concerns about the future of Mr Rao's government.

Foreign investors have put

EMERGING EQUITY MARKETS: INDIA

about US$3bn into the Indian stock market and a further US$4bn into international offerings made by Indian companies. But interest has declined sharply in the past two months. In November, the most recent month for which figures are available, foreigners made net purchases in India of just $10.9m compared with a monthly average of nearly $300m for the previous six months. December's figures are expected to be similar. Fund managers have continued to buy Indian companies' international issues – but only after securing substantial price discounts.

A year ago India was virtually a new market to foreign investors. A government ban on foreign portfolio investment was lifted only in late 1992. Fund managers started investing in significant amounts only in late 1993. But much of this rush has been accounted for by funds with negligible holdings of Indian paper buying their first US$50m or US$100m of stock. Now that they have established footholds in India, they are taking their time about expanding their portfolios.

The global climate for equities has generally turned sour following worldwide increases in interest rates. Emerging markets, which saw a surge of investment early in the year, are now mostly below their summer peaks. In India, equities rose more than 100 per cent between mid-1993 and mid-1994 but had fallen by 15 per cent by the end of the year.

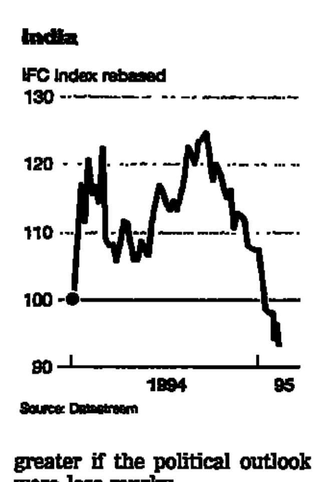
The archaic trading, settlement and share registration systems of the market have put off some fund managers.

Many international investors have therefore preferred to buy international securities offered by Indian companies, mainly global depositary receipts, which are traded on the lightly-regulated euromarkets. But, GDRs have disadvantages. The 50 companies which have made issues are among the largest Indian companies which tend to trade on the highest multiples of earnings so making the shares more expensive to buy than the rest of the market.

Small and medium-sized companies, which some fund managers believe have the best prospects in the fast-deregulating Indian economy, are barely represented on the euromarket. Also, because the market in Indian GDRs, capitalised at about US$4bn, is much smaller than the US$120bn domestic Indian market, the prices are more volatile.

Despite the technical problems, about 20 institutions are active on the Bombay Stock Exchange; more than 200 others have registered with the authorities and are planning to invest at some point. Jardine Fleming, the Hong-Kong-based investment bank, estimates the list of potential investors for south Asian stock is even larger – 602 investors bid in the recent US$900m sale of shares in Pakistan Telecom.

Big as the potential demand for India shares is, it has recently been strained to the limit by the scale of the supply. In the domestic market, companies have already raised about $8bn in the financial year which started in April and plan a further $6bn before the end of March. In the euromarket, they have raised more than $2bn, with another $500m in the pipeline. In addition, there is a growing flow of stock from the sale of government holdings in state-controlled enterprises. Investors are attracted to new issues because they are priced at discounts of up to 20 per cent to the market; but fund managers are selling other stocks to raise cash for the primary offerings.




Investors' appetite would be greater if the political outlook were less murky.

The ruling Congress (I) party's defeat in the state elections last November and December has raised fears that the prime minister could relax control of public spending to recapture lost votes. This could push up interest rates and inflation, which is already running at more than 9 per cent, and stifle industrial growth. The next annual budget, due in February, is seen as a key test of future economic policy.

There is also concern that the electoral defeats could herald a prolonged period of political confusion.

Fortunately, the economy is recovering well from the stagnation of the early 1990s. Output is expected to grow this year by more than 5 per cent in 1994-95 up from 3.8 per cent last year. Manmohan Singh, the finance minister, believes that annual economic growth of 7-8 per cent is within reach by the late 1990s. If he is right, there will be ample scope for continuing sharp increases in profits, which rose 70 per cent at the net level last year and are forecast to rise 35 per cent in 1994-95.

Profits growth, combined with the recent fall in share prices, has brought down the price/earnings multiple – a key measure of value – from more than 25 to about 18 for the whole market. Some investors believe the market is now good value. But others are in no hurry to commit their funds. They argue it will take time before the supply of new issues eases, some of the settlement difficulties are resolved and the country's political future becomes clearer.

BRADY BONDS

# Mexican wave hits markets

## Investors have pulled out of the most important fixed income sector, writes Richard Lapper

Over the past two months the world's emerging financial markets have been struck by a Mexican wave – a chain reaction normally associated with spectator celebrations at football matches. And nowhere has the wave been clearer than in the $131bn market for Brady bonds – paper issued by governments in exchange for restructured commercial bank debt.

Mexico's devaluation on December 20 triggered a fall in the price of Mexico's own Brady bonds, which account for just under a quarter of those in issue.

However, the impact on other Bradys, issued by Argentina, Brazil, Poland, Nigeria, Bulgaria, Morocco, the Philippines and several smaller countries, was less predictable.

In the event though, investors have pulled out of the emerging markets' biggest and most important fixed income sector. US mutual funds, which piled into the emerging markets with enormous enthusiasm in 1993 and 1994, have led the charge out.

Hedge funds, often with highly leveraged positions, have had to sell bonds as their paper losses mounted even faster than those of the banks. And many Latin American investors have also withdrawn.

Between December 20 and January 24 Latin American Brady bonds fell in value by more than 12 per cent, according to the JP Morgan Emerging Market Bond Index, which measures the total returns, capital appreciation and income flows from Bradys. The market has been extremely volatile – losses for Latin Americans fell by 15 per cent on January 9 and 10 before rising by more or less the same amount on January 11 and 12.

Even before the decline in the past month, 1994 had been a poor year for Bradys. In February, the rise in short-term interest rates triggered a general withdrawal by investors from fixed income markets. Political instability in Mexico, highlighted by the guerrilla rebellion in the southern state of Chiapas and the assassination in March of the presidential candidate of the ruling PRI, led to selling of Bradys. Matters improved over the summer and early autumn, with the election of President Fernando Henrique Cardoso in Brazil and Ernesto Zedillo's election triumph in Mexico, helping to support prices. Even so, investors in Latin American Bradys would have lost nearly 12 per cent of their capital last year even before December 20.

In these circumstances, there would seem to be little to encourage the market. Traders, however, take solace for a number of reasons. First, they argue that despite its troubles the market has proved to be reasonably liquid, a clear sign of its maturity. The Emerging Market Traders Association, a trade association formed in 1990, estimates that the total volume of Brady and emerging market debt trades rose by 50 per cent in 1994 to reach an estimated $3,000bn. "Given the pressure the market has held up reasonably well," says Peter Geraghty, president of ING UK Capital.

Indeed, some traders argue that the market's liquidity was one of the reasons why prices fell so low during December and January.

Many traders had taken short positions on Bradys to balance long positions in other emerging market debt instruments such as eurobonds, precisely because the Bradys were liquid and the eurobonds illiquid.

In addition, many prices have now fallen so low that they are becoming undervalued according to most standard criteria. Since December, many assets have fallen to prices lower than the original distressed debt traded in the secondary market. In other words, as a performing asset the Brady bonds have been regarded as less attractive than the non-performing assets from which they were created. Even if the issuers of Brady bonds do default, the paper is collateralised by 30-year US Treasury bonds, ensuring that the principal of the bonds will be repaid.

A provision in the agreements which led to the establishment of Bradys stipulated that between 12 and 18 months of advance interest payments must be held in escrow accounts, giving investors an extra layer of protection.

Paul Luke, head of emerging market research at Morgan Grenfell Emerging Markets, argues that current prices exaggerate the risk that the governments which issued Brady bonds will default on their obligations. He says that current prices imply a probability of default which would only be likely if a 1930s-style world depression were to occur again.

In addition, although the markets were all hit by the same wave of selling, each has been hit to a different degree, producing a significant revaluation of paper from different countries.

In December, Polish paper *was yielding 147 basis points* more than equivalent Mexican bonds. Although Polish Bradys have fallen in value these relative valuations have now reversed with Mexico trading at 277 basis points over Poland by January 25.

And between December 20 and January 25 the spread of Argentine and Brazilian par bonds over Mexican pars narrowed from 397 to 211 basis points and from 458 to 296 basis points respectively. As a result Mexican par bonds are likely to lose their benchmark status for the sector, possibly in the longer term to Brazilian paper.

When the market settles down, investors are expected to examine the characteristics of each issue more carefully.

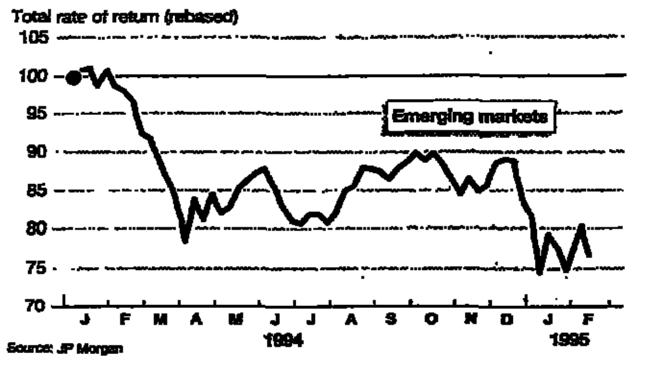
"I imagine there will be a much tougher examination country by country – you'll start to see the Brady bonds differentiated more and more according to credit," says Mr Geraghty.

Finally, enthusiasts are also quick to point out one further characteristic of the market which also signals the market's maturity. Events of the past two months have shown conclusively that Bradys do not necessarily rise or fall in line with US 30-year Treasury bonds, as seemed to be happening early last year when both classes of asset moved down in tandem following the increase in US interest rates in February.

On December 19, Mexican par bonds had been trading at a yield spread of 461 basis points over 30-year US Treasuries.

By January 25, the spread had widened to 843 basis points, for example. That has decisively quashed the view that Bradys are simply a riskier exposure to US Treasuries and has established the paper as a separate asset class. According to Mr Geraghty, "Bradys have become an integral part of the financial landscape."

**Brady bond index**




Source: JP Morgan

DEPOSITARY RECEIPTS

# Investor appetite still keen

## Companies are expected to return to the sector in search of capital, says Connor Middelmann

Emerging market issuers gave the market for depositary receipts (DRs) a huge boost *last year, fuelling the sector's* explosive growth to record volumes.

While turbulence following the Mexican peso devaluation in December has caused capital-raising DR issuance by emerging-market issuers to dwindle to a trickle in the first weeks of this year, most market participants say that sooner or later companies will return to the sector in search of international capital.

"There has been a slowdown in terms of new issuance, but the long-term prospect looks positive," says Mark Bach, global DR sales director at Citibank in New York. "Demand from emerging-market companies for international capital is here and won't go away." Moreover, "there's still significant investor appetite for non-US securities, and this trend is set to continue."

"We don't think events in Mexico will have a lasting effect on the rest of Latin America," says Joseph Velli, head of worldwide securities processing at Bank Of New York. "From a trading standpoint, we have more ADRs outstanding now than before the crisis broke. I think many investors – both retail and institutional – see this as a buying opportunity." While he does not expect capital-raising DR issuance to reach last year's levels, he predicts that, "from a new ADR standpoint, it'll be another record year".

A depositary receipt is a certificate which represents a company's publicly-traded equity or debt. To create a DR, a broker buys the company's shares on the home stock market and delivers them to the depositary's local custodian bank, which then instructs the depositary bank – for example Bank of New York or Citibank, the two leading depositaries – to issue DRs. They are traded either on a stock exchange (with the bulk listed on New York's NASDAQ or AMEX exchanges) or in the over-the-counter market, and are increasingly used to raise capital. ADRs (American DRs) or GDRs (Global DRs) are essentially the same from a legal, technical, operational and administrative standpoint; the different names are used mainly for marketing reasons.

The main benefit of DRs to investors is that they tend to be easier to trade than shares in the local market. Not only are price and dividend payments denominated in US dollars, but DRs also allow investors to circumvent the often cumbersome settlement procedures in some of these markets. Moreover, DRs allow certain types of fund management institutions to overcome obstacles they may have in buying and holding securities outside their local market.

From the issuers' perspective, DRs can enlarge the market for their shares through a broadened exposure; provide a mechanism for raising capital; and enhance the image of the company's products or services outside its home market.

According to Citibank, 285 companies from 43 countries launched new DR programmes in 1994, nearly twice as many as in 1993. The amount of capital raised in 1994 via the issuance of DRs increased by 81 per cent over the previous year to more than $20bn.

Emerging market issuers accounted for 56 per cent of DR programmes launched last year – after 11 per cent of new DRs in 1990, according to Citibank. Moreover, they accounted for 66 per cent of the total capital raised through DRs.

India was the most active issuing market last year, with 43 companies launching new depositary receipt programmes. Hong Kong came second with 26 companies, South Africa was third with 22, Brazil fourth with 21 and Mexico fifth with 19 companies. New entrants from the emerging markets included Indonesia, Pakistan, Columbia, Peru and Russia.

Privatisations were an important factor in the growth of the DR sector; among emerging-market issuers, Indonesia's telecommunications company Indosat and Pakistan Telecommunications raised about $800m via DR issues.

Although a large number of investment banks are holding mandates to lead manage DR issues for companies wishing to raise capital, the majority of those deals have been put on hold following the upheaval in emerging markets following the Mexican crisis. In eastern Europe, sentiment is further dogged by the Chechnya crisis. In east Asia, markets are jittery amid reports of the deteriorating health of leader Deng Xiaoping.

In India, last year's most active DR issuer, investor sentiment is subdued by political worries ahead of regional elections and the 1995 budget in coming weeks. Thus, Indian GDR issues worth about $2.3bn *slated* so far for this year (some of which had been postponed from the end of 1994) are waiting in the wings, threatening to depress the market with a deluge of supply when sentiment recovers sufficiently to re-awaken issuance. In the secondary sector, GDRs are trading at significant discounts to the underlying stock.

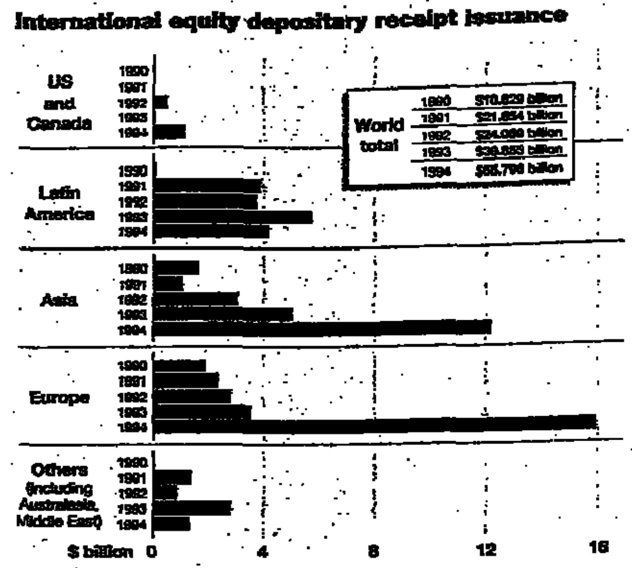
However, with many developing countries keen to raise more international capital, many say it is a matter of time before DR issuance is resumed – albeit slowly at first.

"From the issuers' point of view, demand for capital is still there, but investor interest has to recover before you can execute deals," says Nicholas Didier, head of depositary at Morgan Stanley Depositary Services in New York. "Right now, there is only one side to the party."

In such a buyers' market, "issuers have to be ready to accept the price offered by the market – their expectations cannot be sky-high," he says, adding that lead managers sometimes raise issuers' expectations beyond realistic dimensions.

When issuance resumes, many say the sector will have to be re-opened by high-quality names to whet investor appetites. But the selection process will not only affect issuers, some say. "I believe we will also see a selection process among underwriters," says Mr Didier. "There is a clear quality argument surrounding lead managers. Investors will want more expertise and due diligence from the intermediaries."

**International equity depositary receipt issuance**




Source: Euromoney Bondware

# Investors lose their nerve

## Prospects for the south have started to look less rosy than at the peak of the late 1980s' surge, says David Marsh

It has been an arduous year for southern Europe. In the 12 months since the US Federal Reserve started a round of international interest-rate tightening in February 1994, the economic recovery has gained ground in northern Europe, yet divergences compared with the EU's southern countries have been increasing at a disconcerting pace.

During much of the past five years, following the breaching of the Berlin Wall in 1989, Europe's attention has been mainly directed towards its eastern flank. Yet the political and economic difficulties in Turkey, the civil war in Algeria and the uncertainties in other parts of north Africa have increased fears that instability could spread to Europe.

In addition, the turbulence on financial markets centred on Mexico has had a further impact in heightening international investors' nervousness about prospects for southern Europe. Economic difficulties faced by the EU's Mediterranean members and Turkey have been nothing like as serious as the financial shock in Mexico. The southern members of the EU – Italy, Spain, Portugal and Greece – are mainly developed economies rather than emerging markets. But, as one senior Spanish banker puts it, "When the markets are nervous, we all tend to get lumped together."

Well before the latest bout of anxieties, the eastwards shift in Europe's centre of gravity had helped expose the south's economic shortcomings. As competition for jobs and investment with eastern Europe has intensified, prospects for the south have started to look less rosy than at the peak of the late 1980s' surge.

EMERGING EQUITY MARKETS
S EUROPE

In the five years before 1989, annual average growth in Italy, Spain, Portugal and Greece was 3.5 per cent, 0.3 points above the EU average. Between 1990 and 1994, growth in these countries faltered to 1.2 per cent, 0.4 points below the average.

Greece has been a chronic under-performer for the last decade, but below-average growth in Spain, Portugal and Italy is a more recent phenomenon.

In all cases, sluggish growth has exacerbated public sector debt problems. Although these are greatest in Italy and Greece, where public debt is well over 100 per cent of GDP, there is also little likelihood in Portugal and Spain of a reduction to the 60 per cent target laid down by the Maastricht treaty by the end of the decade.

Turkey remains a special case, exemplified by the way relations with Europe have soured as a result of the country's worsening human rights record and the dispute over the planned customs union with the EU. Turkey's dismal economic performance last year – encapsulated by consumer price inflation of 125 per cent last year, and an estimated 4 per cent fall in gross domestic product – was in order of magnitude worse than any other member of the Organisation for Economic Co-operation and Development.

Other southern states, although faring less badly, have nonetheless suffered a growing gap in economic performance compared with the north. European industrial countries achieved better than expected growth of 2.3 per cent, but growth in Spain (1.7 per cent), Portugal and Greece (1 per cent) and Italy (2.2 per cent) all lagged behind the faster-growing north.

The task of tackling economic problems has been hampered throughout the south by difficulties at the heart of government. Italy's financial and political crises have been worsened by the indecisiveness of the administration of Silvio Berlusconi that came to power in April 1994, now replaced by the new technocratic government of Lamberto Dini.

In Spain, Felipe González, the prime minister, has been facing his most serious challenge during 12 years in power as a result of a string of scandals over corruption and malpractice.

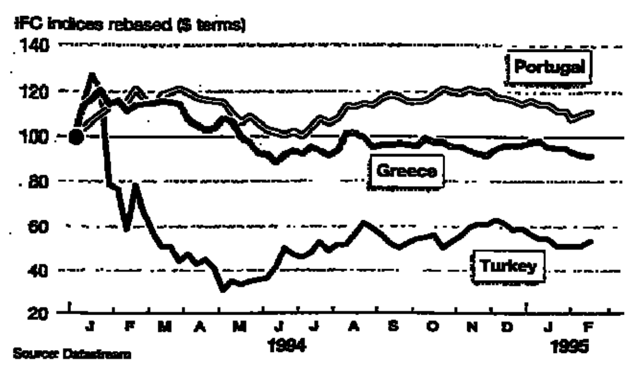
In Greece, the weak health of Andreas Papandreou, the prime minister, combined with the lack of incisive decision-making in his governmental team, has deepened uncertainties over the direction of policy-making. The decision in November to postpone the planned flotation of 25 per cent of the state telecommunications company OTE highlighted the obstacles to modernising economic structures confronting the Greeks.

Portugal, like Spain, has benefited from a long period of economic and political stability since the mid-1980s. However, the announcement in January that Anibal Cavaco Silva, the prime minister for a decade, will not stand for office in the October elections has brought to the surface fears of drifting policy-making priorities.

The general uncertainties overhanging the south have had a big impact on financial markets. Although the escudo and peseta remain within the European exchange rate mechanism, the two currencies have suffered large devaluations against the D-Mark since summer 1992. At the same time, yields on southern European government bonds have risen by roughly twice as much as those on D-Mark bonds during the past 12 months. This is a result both of investors' worries about burgeoning government deficits in southern Europe and also of the realistic view that these countries will probably not qualify for economic and monetary union by the end of the century.

Much is at stake as the south tries to put its house in order: widening economic divergences between north and south pose risks that spread well beyond the concerns of investors. If the gap proves permanent, it would impair the EU's ability to help resolve the troubles on its Mediterranean fringes. And by undermining efforts to restructure the EU's budgetary and farm support arrangements, a north-south gap could also upset the Union's planned enlargement to eastern and central Europe.

**Greece, Portugal and Turkey**




# It looks like the party's over

## The rush of portfolio investment has run its course and the latest game is to spot the next Mexico, says Nicholas Denton

Eastern Europe's stock markets have erupted and subsided as dramatically as the revolutions that convulsed the region five years ago. Even the sequence has been uncannily similar.

Poland, the first country to oust its communist regime, led its neighbours out of recession and came early to international investors' attention. They rode the Warsaw stock market up as shares quadrupled in a year. Hungary and the Czech Republic followed, just as they did in eastern Europe's 1989 *annus mirabilis*.

And, as the central European markets cooled, investors enjoyed an Indian summer in Russia. Investment fund managers set up vehicles to invest in gas and oil producers and other newly-privatised companies. Some looked even further afield for value: to the other former Soviet republics and the Balkans.

But the rush of portfolio investment in eastern Europe has now run its course. The question for investors is not what is hot and what is not. Rather, says Richard Cheventix-Trench of Barings Asset Management, it is a matter of "what's cold and what's frozen".

EMERGING EQUITY MARKETS
E EUROPE

Not since an assassin murdered Trotsky, the Russian revolutionary, with an ice-pick in Mexico has an event in the central American country sent such a chill through eastern Europe. Mexico has been a stark reminder of the volatility of emerging markets, eastern Europe's included.

Eastern European bourses, like Mexico's, have suffered from the tightening of monetary policy and the rise in long-term interest rates in the US and UK. Historically low yields on US Treasuries induced investors to look further afield for returns; the rise in yields in 1994 has drawn funds back home.

The latest game for analysts is to spot the next Mexico. Hungary's gaping current account deficit, at 10 per cent of gross domestic product, and $28bn foreign debt make it a prime candidate.

But eastern Europe is different. Its capital markets, recent creations, are immature. In the past that has been a weakness. In a tense investment climate, however, it appears a blessing in disguise. Neither Hungary nor any of its neighbours has developed the equivalent of Mexico's tesobonos. None has a short-term and liquid instrument which foreigners can hold or abandon.

Poland and Russia have already defaulted on their foreign debt, and the Czech Republic has few liabilities to speak of. Hungary has refinanced its borrowings and their average maturity now stands at seven years. Foreign exchange reserves in Poland, the Czech Republic and Hungary are all strong enough to withstand the most severe immediate drain on the countries' finances.

A crash is less likely, too, because Warsaw, Prague and Budapest have already deflated. All three stock markets stand well below their level of a year ago.

Moreover, the region's prospects for growth are better now than they have been for at least a decade. Poland's economic expansion over the past two years has been stronger than any other large European economy. The Czech Republic and Hungary also recovered last year. The economic rebound has brought with it corporate profitability, particularly in Poland. Fund managers, while pessimistic about the market's rating, see excellent underlying value in individual stocks.

The good news stops there, however. Illiquid capital markets, while a safeguard against balance of payments crisis, are also volatile. Eastern Europe's savings rate compares poorly with that of east Asia or Chile. When foreign investors pull out of the region's stock markets, they go into freefall.

Domestic savings are swamped, too, by the amount of shareholdings coming on to the market through government sell-off schemes and the capital investment needs of newly-private companies. That is a heartening sign that privatisation has, for all its fits and starts, actually happened. But the glut of shares is also depressing prices.

And governments are dissolving barriers to entry with painful slowness. Russia still has far to go to achieve reliable custody of shares and settlement of transactions.

Economic growth, moreover, has come too late to bolster reformist politicians. Only the Czech Republic's conservative government led by Vaclav Klaus wins positive reviews from western business.

Poland and Hungary have returned revamped communists to power. In both cases the result was met with equanimity by investors who hoped that the new governments would at least be more competent than their predecessors and less prone to unsettling nationalism. "No-one will ever dare to go back. The old system is totally discredited," says Hans-Jorg Rudloff, former head of CS First Boston in London.

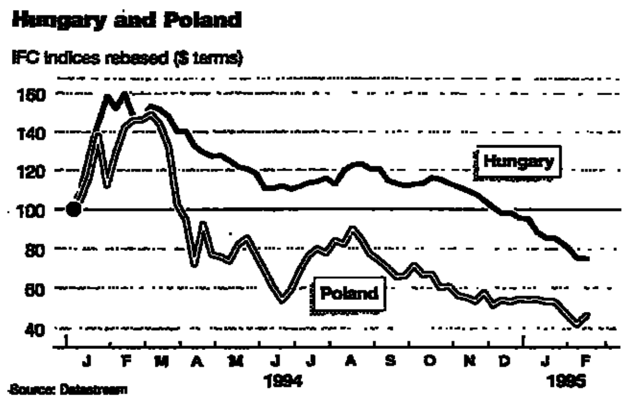
But, in Hungary in particular, the reformed communists have proved a disappointment to business people.

The popular revolt cannot compare with that in the Mexican province of Chiapas. But the privatisation commissioner and Laszlo Bekesi, the finance minister, have resigned. The latter warned that Hungary could go Mexico's way. "The party's over," said one investment banker preparing to pack his bags.

It is in Russia, however, that the backlash against privatisation and the free market has been the most violent. Opposition to western investment in strategic industries, broadly defined, has grown increasingly vociferous.

If shares are cheap enough, even political risk like Russia's becomes palatable. That is the hope of the investment banks which were planning to bring Gazprom and Lukoil, the Russian energy giants, to market this spring. But, after the Mexican collapse, what price risk?

**Hungary and Poland**




# Equity souk opens for foreign business

A trip to the Arab world is not complete without shopping in a nearby souk. All foreign visitors find themselves at some point or other trudging around a maze of alleys in search of hidden treasure, haggling with the local merchants, and returning home proudly to display an exotic trophy from their adventures.

These days it is not only carpets and tea-pots that are on offer. The Arabian bazaar is expanding into stocks and shares. In an increasing number of countries from Morocco to Oman, the equity souk is opening for foreign business.

EMERGING EQUITY MARKETS
MIDDLE EAST

The Arab world has been largely excluded from the wave of foreign funds flowing in and out of stock markets of developing countries. Of an estimated $40bn of cross-border equity flows invested in emerging markets worldwide in 1994, the fledgling bourses of the Middle East, North Africa, and the Gulf states attracted less than $300m, according to Baring Securities in London.

But, while most fashionable emerging markets in Asia and Latin America suffered last year, all Arab markets open to foreign investment – with the notable exception of Jordan – shot up.

Spurred on by favourable developments in the Middle East peace process and on-going economic liberalisation programmes, impressive growth figures in share price indices have caught the eye of international financial institutions.

For many analysts, Egypt is the hot tip to watch in 1995. Last year, Cairo's bourse surged by more than 100 per cent in dollar terms as the long-awaited and much-muddled privatisation programme began and changes to the capital markets law were enacted.

At first glance the market seems somewhat deceptive. Its capitalisation is around $5bn with 674 listed companies, but fewer than 20 of these are actively traded and the free float is no more than $600,000.

Continued on page 8

# Glimmer of light in a dark continent

**Michael Holman** wonders whether 1995 will see the start of a new era when the region's huge potential can begin to be realised

The African disinvestment tide could be on the turn.

Good news from southern Africa, an improving business climate across the continent after a decade of structural adjustment, and the return of Nigeria to the reform fold, may be tipping the balance for investors who have steered clear of the continent.

In southern Africa, where hopes for recovery are concentrated, the successful transition to democracy under Nelson Mandela has seen the re-emergence of the Johannesburg stock market, the 10th largest in the world.

Coupled with Mozambique's multi-party elections, and cautious hopes that Angola's recent peace pact will hold, it could mark the start of an era when the region's huge potential can be realised.

Meanwhile Nigeria, sub-Saharan Africa's most important economy after South Africa itself, is attempting to revive a lapsed structural adjustment programme. In last month's budget, General Sani Abacha's military government dropped the restrictions on foreign shareholdings in local companies, and began a return to the market-driven foreign exchange system, abandoned more than a year before.

Even the Economic Commission for Africa (ECA), whose economic appraisals of the continent have usually been bleak, sees at least a glimmer of light at the end of the tunnel.

The Addis Ababa-based UN agency says that the continent's 2.8 per cent growth in 1994 – the highest for five years – allows "modest optimism" for 1995. Assuming "normal conditions", says the ECA forecast, Africa's economic output could rise by 3 per cent in 1995.

At the very least, these encouraging developments on

EMERGING EQUITY MARKETS

**AFRICA**

the continent should help stem, and perhaps gradually reverse, the damaging pull-out by foreign manufacturers between 1989 and 1994.

According to a recent report by the Institute of Development Studies at the University of Sussex[1], more than half the 90 British manufacturing companies surveyed, (excluding South Africa) have disinvested during this period.

Gloomy though these figures are, the current situation may not be quite as grim as the figures suggest. The research on which the report is based may have been concluded just too late to assess the impact of the complex and protracted reform process.

On the very day of publication, for example, came word of the largest foreign bid in the history of the Kenyan stock exchange, worth $750,000. It was for 700,000 shares at 52 Kenyan shillings ($1.18) in the Kenyan-owned National Industrial Credit company.

A day later came an announcement that Morocco had invited tenders for two four-star hotels worth $2.6m, the latest step in the privatisation of 112 state enterprises, including 37 hotels.

The Sussex study may also have under-estimated the impact of recent developments in Africa's foreign exchange policies.

Although the continent's economic reform programme has been under way for a decade, some of the most important measures have only been fully implemented over the past year or two.

By end of 1990, only six countries had reached the stage of full or virtual unification of the exchange system – that is, closing the gap between black market and official hard currency rates.

By mid 1994, however, according to an IMF analysis published last September[2], this had risen to 12 countries, where the gap had been reduced to 2 per cent or less.

In addition to these countries, there is the group of African states within the CFA franc zone which finally devalued the currency by 50 per cent in January 1994.

Perhaps the most significant pointer, however, to a change for the better in the attitude of investors comes from African businessmen themselves.

Liberalisation of exchange rates, coupled with a slowly growing confidence in political stability and continuity of economic policies in the reforming countries, has brought about the return of African assets remitted abroad. Several countries, including Kenya and Uganda, and some of those within the CFA group, are seeing "large private capital inflows", notes the IMF report.

If perceptions of Africa are indeed changing for the better, the impact could be dramatic, for a modest inflow of funds by world standards could transform what is a very small market.

Excluding South Africa, where the market capitalisation of the Johannesburg Stock Exchange is $245bn, the 13 active African stock markets have a combined capitalisation of only $16bn.

Some of these centres, however, have had a remarkably successful year. Zimbabwe was the fourth best performing market in the world last year, rising by 123 per cent in dollar terms, albeit off a low base.

Mauritius, where the index rose 51 per cent in 1994, is attracting growing interest, particularly after restrictions on foreign ownership of shares were dropped last June.

The island had already attracted the attention of the London-based Commonwealth Development Corporation, which in in 1992 set up their Mauritius Fund, together with the Mauritius Commercial Bank and Genesis, the London investment managers. The fund has a net asset value of more than $31m.

More recently on the scene is Capital Market Advisors Ltd, which in January this year launched the KIM Mauritius Opportunity Fund, a British Virgin Islands open-ended investment company. It intends to raise $10m, says Easan Katir, the investment manager, who predicts a return of "at least 30 per cent" in 1995.

Zambia's stock exchange will be boosted by an acceleration in the privatisation programme, forecasts Bruce Bouchard, managing director of Lusaka-based Meridien Financial Services. "We anticipate dramatic changes in 1995," says Mr Bouchard, noting that the first parastatal to come to the market will be Chilanga Cement, now majority-owned by the Commonwealth Development Corporation.

In Ghana, where total capitalisation was $120m at the end of 1993, returns have averaged more than 56 per cent a year for the three-year period since the exchange's inception, calculates Peter Enti, at the London School of Economics, in a recent study of the Accra Stock Exchange.

Meanwhile, the New York-based International Asset Transaction's Nigeria Emerging Market Fund set up in October 1992, has produced an annual return of 16.35 per cent according to its manager, Mr Gus Udo.

Based on the growing interest in Africa, Baring Securities predicts that the continent's exchanges should be able to expand from their present 2.2 per cent of world market capitalisation, to 3 per cent by 2010, boosted by cross-border equity flows of up to $1.6bn. The sub-Saharan markets on their own, predicts Barings, could expand by a factor of five or six times, and last December put them into their "best equity market region" category.

Positive sentiments also come from Marianne Hay, in charge of Morgan Stanley's Africa Fund launched a year ago, and oversubscribed, closing at $200m.

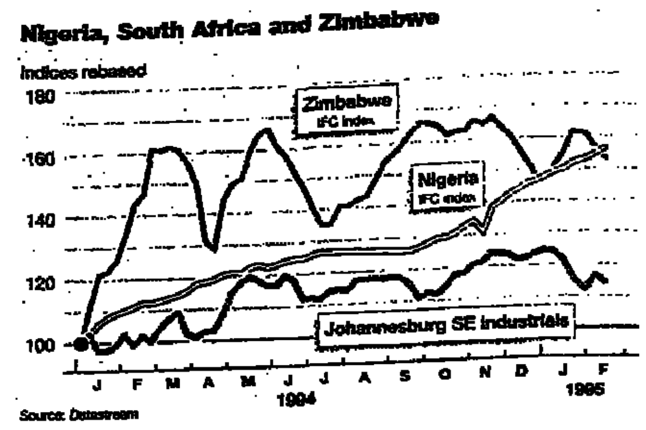
That said, Africa is still not for the faint-hearted.

Its institutions remain weak, management is generally poor, and economies remain vulnerable to drought, weak commodity prices, and political tensions. Many observers question Nigeria's capacity to sustain its new measures, while several other countries are still finding the reform process painful.

[1] *British Manufacturing Investment in sub-Saharan Africa.* Institute of Development Studies, Brighton. Telephone: +44 (0) 1273 606261.

[2] *Economic Trends in Africa.* IMF Working Paper WP/94/109.

**Nigeria, South Africa and Zimbabwe**




Source: Datastream

# JSE poised for a capital inflow

For the past two years brokers on the Johannesburg stock exchange have been predicting the imminent inflow of billions in foreign capital once international investors realise the attractions of one the world's largest emerging markets.

With a capitalisation of around $200bn, analysts argue, South Africa is a big, diversified market that offers a wide range of options to interested investors. It is just a matter of time before it catches the eye of big American and European portfolio managers.

But while the JSE drew some benefit from the big wave of emerging market investment in the last few months of 1993, when foreigners invested a net R2.8bn, 1994 has proved to be disappointing.

The combination of political uncertainty in the first part of the year, and a decrease in overall international interest meant net foreign investment for 1994 in equities was a paltry R185m while during the last six months of the year foreigners were sellers of stocks, disposing of a net R796m. The situation in gilts was only slightly better with net purchases of R962m.

Despite this, Johannesburg managed to maintain its long bull run and proved to be one of the better performing markets in the world, as the all-share index rose 16 per cent on the year.

The market has dropped somewhat in recent months, partly the result of a lower gold price, partly because of a general bearish drift, and is 12 per cent down on the all-time high it reached last September. But the fall on the stock market has not been dramatic. More important, in April Johannesburg officially becomes part of the IFC emerging markets index with a hefty 21 per cent weighting.

"After April, investors will be forced to assess South Africa alongside Latin American and Asian markets, and at the moment we compare quite favourably," says one local dealer. And with corporate earnings growth this year widely expected to be in the neighbourhood of 20 per cent, the market's overall p/e ratio of 17 currently looks quite attractive.

At the same time there will almost certainly be a surge in interest when the much-hated financial rand, the artificial investment currency available only to foreigners, is finally scrapped – a move likely to take place some time after the March budget.

**Mark Suzman**

# Equity souk open

Continued from page 7

However, with 314 companies on the government's privatisation list with a book value of $23.5bn, its potential is huge.

"Egypt could be the India of the Middle East," argues Miles Morland, of Blakeney Management in London, one of the leading consultants on Arab and African stock markets. "It has no option but to use the bourse as the main medium for selling companies and a lot of bargain stocks will be available over the next two years."

Another star performer in 1994 was Tunisia's bourse with 21 listed companies and a market capitalisation of $2.6bn. Fuelled by frenetic domestic demand, its stock index grew by more than 100 per cent. But new foreign investors hoping to get a piece of the action were disappointed to find the authorities had suspended issuing new licences.

Ebru Ozsezgin, who manages Framlington's $30m Maghreb Fund, launched in September to invest in Morocco and Tunisia, believes the door to foreign investment will be opened once an updated capital markets law is passed early this year. The government in Tunis has shown a commitment to IMF-guided liberalisation policies, but has so far held back from a concerted privatisation effort. Ms Ozsezgin believes that having seen the success of Morocco's privatisations, Tunisia will soon begin its first sell-offs.

Morocco has led the way in the Arab world with its privatisation programme. The government says it received $420m in 1994 in receipts from privatisations and more is on the way. The bourse's market capitalisation has grown two-fold since 1992 to $5.4bn and 56 listed companies. Last year its index rose by 32 per cent. Analysts say that although the price earnings ratio of 18 is too high for bargain hunters, prospects for strong economic growth accompanied by low inflation will continue to attract foreign investors.

Elsewhere, Jordan's bourse had a disappointing year. Despite King Hussein's historic peace agreement with Israel, the Amman Financial Market has gone from being one of the most profitable Arab markets to the worst performer. Its general index dropped by more than 9 per cent over 1994, after growth of 23 per cent in 1993. Domestic investors seemed unimpressed by prospects of a Middle East peace dividend and were more worried about the exclusion of Iraq, Jordan's main trading partner, from the international fold.

Foreign participation in the market, with more than 100 listed companies and a market capitalisation of $5bn, was also disappointing. Despite permission to invest $280m, foreigners put in only $6m.

In Lebanon, 1994 saw Beirut re-open its equity market with the launch of Solidere, a $1.8bn property development company set up to rebuild the war-ravaged city centre. Shares started trading in June 1994 at a nominal value of $100 and are now trading at around $137. There are plans to expand the one-listing show to a full stock exchange by the end of this year. Meanwhile, Syria also continues to talk about opening its own bourse.

In the Gulf, Oman stands alone in allowing non-Gulf citizens access to its stock exchange. So far, however, only the $50m Oryx Fund, launched last year by Blakeney Management and the Oman National Insurance company, has received approval to invest in Muscat's bourse which rose 33 per cent in 1994. Other foreign investors are expected to be allowed in later this year. Bahrain is also planning to ease its restrictions.

The huge market in Saudi Arabia, with a capitalisation of around $50bn, along with Kuwait and the United Arab Emirates remain closed for the time being. Analysts believe, however, that stagnant oil prices, diminishing state revenues and the need to attract foreign capital into non-oil industrial ventures will eventually lead to restrictions being eased.

Although there are no thrusting economic tigers in the Arab world – the World Bank forecasts a regional GDP growth of 3.8 per cent a year to the end of the century – the Arabian bazaar looks set to be busier than ever.

**James Whittington**

FINANCIAL TIMES SURVEY

# EUROPEAN REGIONAL FINANCIAL CENTRES: Manchester

MONDAY FEBRUARY 20 1995

The market has spoken. Last week Mr Alastair Burt, the government minister responsible for Manchester, inaugurated work on the £58m Great Bridgewater project, the largest single new office development in Manchester city centre in 30 years.

There will be 219,000 sq ft of space; the building is being cabled for 21st century technological development.

Nothing could better indicate the growing strength and confidence of Manchester's professional services sector, and the city's emergence as a self-sufficient regional financial capital.

For this is a building with guaranteed tenants, not a speculative development. About 70 per cent of the 219,000 sq has been pre-let to Addleshaw Sons & Latham, Manchester's leading firm of corporate lawyers, and to two firms of accountants – Ernst & Young and Price Waterhouse.

The new complex of two office blocks and a public piazza will be next to Manchester's new £42m concert hall for the Hallé Orchestra, currently under construction. It will be developed by Amec and funded by PosTel Investment Management, which represents the Post Office and British Telecom pension funds.

The project, flagship of the government-backed Central Manchester Development Corporation, nearly foundered in the recession. Amec rescued it in 1992 in partnership with Beazer and the CMDC, but has since taken over as sole developer.

Its market has been fuelled by a financial and professional services sector bursting at the seams of what Manchester calls its "square half-mile".

Banking, finance, insurance and business services now account for 111,200 jobs in the city, nearly half north-west England's total.

As Mr Tom Marshall of Lambert Smith Hampton, the chartered surveyors, puts it: "It was often forgotten in the boom days that although there are three components in any development – the developer, the funder and the tenant – the tenant is the vital ingredient."

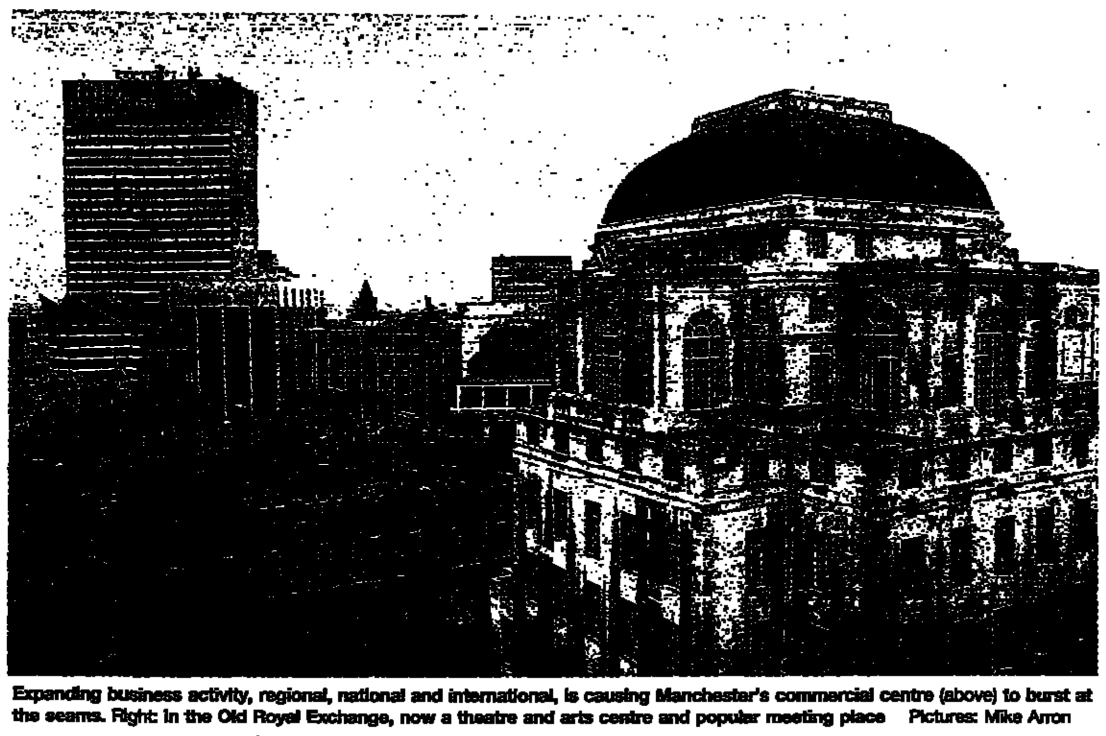
Since the new building is outside the square half-mile – which runs from the ever-impressive Victorian Gothic solidity of Manchester Town Hall to the tired 1960s architecture of Piccadilly Plaza – one effect will be to extend the city centre.

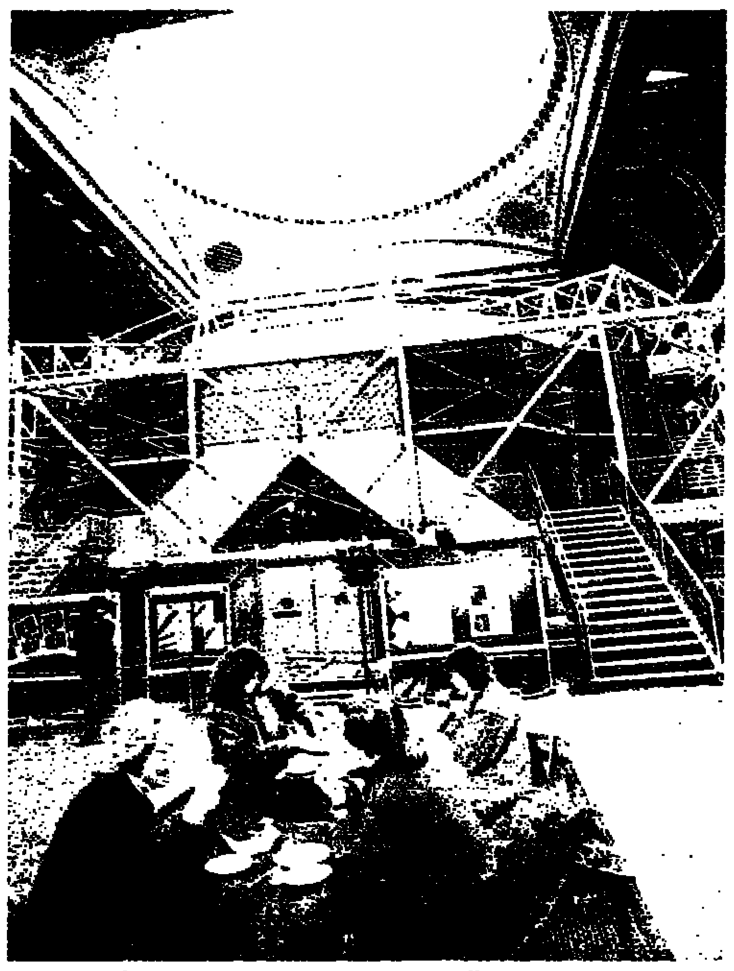
If this makes it less "walkable" – an attribute some venture capitalists swear has helped them put together deals they might otherwise not have done – Manchester's new tram system stops outside the development and then glides past many of the city's 60 banks.

Great Bridgewater is not the only example of market demand. Three other large city centre schemes are under way and another two, possibly three, are about to start.

Developments are piecemeal because there is not a single city centre block in Manchester without one or two listed buildings, so façades have to be preserved. But tower cranes are in evidence and another 200,000 sq ft of modern space is on its way, with a similar amount not far behind.

Will there be enough demand? Trinity Court, an internally impressive modern building constructed behind an old facade in John Dalton Street, gives a clue.





Expanding business activity, regional, national and international, is causing Manchester's commercial centre (above) to burst at the seams. Right: in the Old Royal Exchange, now a theatre and arts centre and popular meeting place Pictures: Mike Arron

**Ian Hamilton Fazey** appraises the new confidence that fills the UK's second largest banking centre

## Half mile bubbles over

When Hammond Suddards, the Leeds-based law firm, became the first tenant in 1993 it took the top of the six floors, but there was open speculation about how the rest would go.

Then last year N.M. Rothschild, the merchant bank, relocated from its outdated Manchester offices into Trinity Court's first floor offices – the ground floor is retail and foyer.

Meanwhile, Hammond Suddards' organic growth has been faster than the firm expected – from 25 to 89 people in less than two years, with first-year turnover trebled. It has cascaded on to several other floors and the two tenants are now expected to take over the whole building.

What has brought all this about, when national economic recovery still seems fragile, hesitant and uneven?

The general view is that around 1989 Manchester saw its fast-developing financial and professional services sector growing stronger in depth and becoming increasingly self-standing. All the sector's elements combined to strike in parallel at London, the city's main competitor, while the capital languished in recession.

According to Mr Terry Thomas, managing director of the Co-operative Bank, which itself claims to be winning "thousands" of new customers each week through its current TV advertising: "The whole Manchester business community remained self-confident despite recession.

There is a new collective self-assertiveness that started to emerge in the late 1980s. Everyone decided if we wanted to do better it had to be through self-help. Since then we have been getting on with it."

The bid for the 2000 Olympics was part of it. Mr Thomas says it only failed to get the games; it succeeded in uniting the community.

He himself chairs the new North West Partnership of local authorities and the region's pioneering Business Leadership Team – a group of 30 company chairmen or chief executives, led by the Duke of Westminster and Sir Alan Cockshaw of Amec – which has had a seminal role in pulling all the efforts together.

Mr Alan Watson, agent for the Bank of England in the city and a driving force in the Manchester Financial and Professional Forum, echoes this.

"When I came here 10 years ago, there was a real lack of confidence in this city. It was apologetic about itself.

"They shed this image in the second half of the 1980s. The forum has moved from being a collection of firms to a much more pro-active body. It still has some way to go promotionally but Manchester now has a well balanced critical mass of professional services."

Again, the market has driven this. Mr Paul Lee, managing partner of Addleshaws, says a restructured north-west economy contains hundreds of expanding, medium-sized companies which need advice, capital and support.

"These customers have been getting more sophisticated," he says. "They demand a quality of service we have had to work hard to achieve. As we have done so, we have been able to offer them more. This in turn has fed their demands, creating a virtuous circle."

Price and value for money have also been factors. Legal costs range from about £180 an hour for a top practitioner to £70 for a junior – half the London prices. Mr Will Holt, a former Alsop Wilkinson partner now with Dibb Lupton Broomhead (another invader from Leeds), says economical, competitive fixed prices, not hourly rates, are now demanded by clients. These have undercut London prices even further.

Manchester now considers itself a full-service city. Mr Mike Davis, corporate finance and marketing partner of Ernst & Young, who moved from London in 1980 to pioneer owner-managed business services in large accountancy firms, says the market is now big enough for professionals to have a progressive career, rather than just a job.

"London has stopped patronising the north," he says. Part of the evidence is in a steady stream of professionals, particularly lawyers, leaving London for Manchester firms. Salaries are comparable, partnerships easier to achieve, negative equity rare and living costs are lower.

Mr Peter Folkman, founder of North of England Ventures and doyen of Manchester's feisty group of venture capital fund managers, says what has been going on in economic terms is vigorous import substitution of services that once could only be had in London.

Where Manchester's history had enabled it to dominate quaint little niches like engineering insurance – Manchester-based companies such as National Vulcan still have about half the UK market between them – it was always short of something.

No longer, says Mr David Baker, chief executive of the Manchester Financial Professional Forum. A committed European, he sees the trend as part of subsidiarity – in this case decentralisation of professional services from national capitals.

Manchester is a member of a European Association of Regional Financial Centres that started with Edinburgh, Barcelona, Bilbao, Turin, Stuttgart and Lyons, added Manchester, Oporto, Lille, Birmingham and Valencia, and then expanded to Dublin and Leeds.

Whatever is driving the market, the market is there, with substantial sums depending on its continuance. The last word should therefore go to Sir Alan Cockshaw, chairman of Amec. "We had to take the risk of whether to rescue the Great Bridgewater project during the recession. The confidence of the financial and professional sector was crucial to our decision," he says.

The clearing banks are cautious but patient, says **Peter John**

# Fish are not biting

Some of Manchester's most elegant Victorian banking halls now serve a good honest pint. And in one of them you get strobe lights and house music.

It is an appropriate shift. The confident almost brash buildings no longer reflect the mood of the slimmer, grimmer clearing banks.

Of all the city's banks the large high street lenders have had the toughest time over the past three years. Rightly or wrongly their image remains tarnished following the heavy borrowing of the mid-1980s and the withdrawal of support when the recession hit.

Consequently, companies are wary of taking on debt through the traditional method and while there may be an appetite to lend there is not a gnawing hunger to borrow.

There has been some spending – on new information technology, renewal of trucks etc – but it is nothing more than catch-up and there is very little expansion.

Finance directors have approached the big banks and arranged lines of credit lines for larger capital projects but they are not drawing on them. They need the cushion but they don't want to sit on it.

More worryingly, anecdotal evidence suggests that, because of the growing importance of continental Europe, many regional companies are closely examining whether their next chunk of capital expansion should perhaps be abroad rather than in the UK.

On the other hand, the clearers are taking a much closer look at the quality of the companies to which they are prepared to lend. Rather than merely examining the collateral many banks are now looking at management's capability. In essence, it can mean that some of the companies which want extra cash can't get it and some of the companies which don't can.

Bankers say they are in the greatest period of change for a long time

Barclays estimates it has about a fifth of the corporate lending in the area. But Jack Adams who has been in the industry for 35 years and is now director elect for the north-west says that the lending book has declined by about 20 per cent over the past three years and has still not recovered. "We have agreement in principle to increase facilities right across the board but there is very little take-up."

And he believes that there is a new mood with which people have to come to terms. "The period of high inflation was a bit like alcohol. It was great to start with and then it all got a bit too much.

"The recession was the equivalent of drying out. It's very boring. If we could have just one small inflationary blip it would be great but Eddie George has told us we can never have another drink again." The situation has been exacerbated by some very keen cost cutting on loans. Senior banking sources say that one or two of the overseas banks have effectively been buying business by cutting their margins to the minimum.

NatWest Bank, which is the leader in the field with around 35 per cent of the lending market, agrees that customers are not drawing down their lines of credit. Trevor Adamson, the regional executive director, is sanguine about prospects. "We are quite happy we saw a single figure decline in lending but that decline has stopped and our fall was lower than the rest of the country particularly in London and the South East."

However, he acknowledges that times are, at the very least, challenging. "We are going through the greatest period of change that the banks have experienced in a very long time. There is pressure on costs and pressure on income. The technology is changing and volumes are falling."

As the bank with the largest branch network in the region NatWest is feeling those pressures keenly. Over the past year it has reduced its local branch network by nine to 153 and expects the trend to continue. Philip Goodwin of 3i, the venture capitalist, says: "The banks are in that funny stage of wanting to lend more but not being quite sure who to lend it to.

"We have found them very supportive but they're chock full of managers who had a horrible time in the recession and were treated very badly. The morale is very poor."

The decline has been exacerbated by a shift of structure. In terms of lending the banks are always responsible for corporate debt while equity is provided by the venture capitalists. The proportion of debt to equity used to be two thirds to one third but has now tumbled to 50/50.

Colin Davenport, outgoing chairman of Manmiba (the Manchester Merchant and International Bankers Association) believes that the clearers are trying to cope with the problem by scaling up. "I think they're going for bigger companies and bigger deals now for reasons of caution and cost – if you put a £250m deal together the due diligence costs as much as for a £5m deal. The small and medium sized market is not well catered for."

The picture is not completely black. Robin Whyte takes the small-is-beautiful approach and after heading the Bank of Scotland's regional office in Spring Gardens, heart of the financial district, for 12 years and weathering the past three years he is confident.

Whyte concedes that Bank of Scotland is usually a company's number two bank but believes that its personal approach is paying dividends.

"We remained open for business during the difficult times," he says. "Lending dropped by around 10 per cent – mainly because of exiting some property deals. But the decline stopped 12 months ago and we have recovered."

**VALUE OF THE NORTH WEST'S 20 BIGGEST VENTURE CAPITAL DEALS IN 1994 (£m)**

| Name | Month | Location | Description | Value | Management Adviser | Investor |
|---|---|---|---|---|---|---|
| Holt Lloyd | Aug | Wilmslow | MBO | 63.50 | KPMG | Electra, BoS |
| Kruger Tissue | Aug | Disley | Dev Capital | 43.00 | Coopers & Lybrand | 3i, MI, Murray Johnstone |
| Netlon | May | Blackburn | MBO | 40.00 | Coopers & Lybrand | 3i, Electra, BoS |
| GM Buses North | Mar | Manchester | EBO | 37.10 | Coopers & Lybrand | Murray Johnstone |
| Presspart Manufacturing | Dec | Blackburn | MBO | 35.50 | Arthur Andersen | 3i, Murray Johnstone, RBoS, NatWest V's. |
| GM Buses South | Mar | Manchester | EBO | 25.30 | Price Waterhouse | NatWest Ventures, MPE, RBoS |
| New World | Aug | Warrington | MBI | 10.50 | Coopers & Lybrand | Murray Johnstone NW |
| East Lancs Paper Mill | Jul | Radcliffe | MBO | 10.30 | Hambros Bank | 3i, MI |
| Genesis | Sep | Altrincham | Start up | 9.50 | Rickett Mitchell | Murray Johnstone, RBoS, NMH |
| Rainford Group | Jul | St Helens | Dev Capital | 7.00 | Grant Thornton | GR, Midland Bank Acqn Finance |
| Harbury Group | Sep | Swinton | MBO | 6.25 | Price Waterhouse | N of England Ventures, RBoS |
| Sterling Technology | Mar | Manchester | MBO | 5.00 | N Venture Managers | 3i, NatWest Ventures |
| Howe & Coates | Jul | Stockport | MBO | 5.00 | BDO | 3i, BoS |
| Ferranti Technologies | Dec | Oldham | MBO | 4.55 | Latham Crossley Davies | Murray Johnstone, BoS |
| Pipe & Tube Group | Jan | Bolton | MBO | 4.50 | Touche Ross | N/A |
| Darcy Industries | Dec | Manchester | MBI | 3.00 | - | 3i |
| Joyland Amusements | Aug | Knutsford | Dev Capital | 2.50 | - | RBoS |
| ARM Group | Feb | Chorley | Dev Capital | 2.25 | McInnes Partnership | Granville |
| Sella Controls | Aug | Stockport | MBO | 2.20 | Touche Ross | Coop Bank, HIMA, Paul Hildebrandt |
| NW Builders Merchants | Nov | Manchester | MBO | 1.80 | Grant Thornton | 3i, BoS |

BoS = Bank of Scotland; RBoS = Royal Bank of Scotland

Source: Manchester Evening News

Venture capitalists sense a quickening pulse, says **Peter John**

# End of the long decline

The L.S. Lowry print in the reception at 3i, the venture capitalist, is one of the signs of Manchester's revived confidence.

A decade ago, a financial organisation might have shied away from the grimy smokestack image the artist portrays. He evokes an industrial decline that the North West has, according to some historians, been experiencing since as far back as the 1860s.

Since the mid 1980s, however, the rot has stopped in several sectors and for the past year the upsurge in corporate activity has meant that the upbeat mood has returned. The city's history no longer carries undertones of failure.

Venture capitalists are in many ways at the forefront of the revival. The figure for corporate deals – Management Buy Outs (MBO), Buy Ins (MBI) and BIMBOs (not a term of sexist abuse but a combination of the two) – has hit record levels.

"In the early '80s," says Alan Watson, the Bank of England's representative in the city, "Manchester was wondering whether to get out of its track suit and run the race. Now it's ready to breast the tape." The dozen or so small venture groups in the city, such as Barclays Development Capital and NatWest Ventures, have outstripped the national average. The MBO market was worth an estimated £2bn last year. In a region that represents 10 per cent of UK GDP, one would expect some £200m. The final figure, including development capital, is closer to £320m.

"The level of deals here has been higher than it has ever been," says Philip Goodwin of 3i. "Five years ago, this office represented about two per cent of the company's total business. Now we represent 10 per cent."

In spite of rising interest rates he is confident that the scale of business will continue – at least until the focus shifts to the next general election and pinpoints the prospects of a different political climate.

"There are about 5,000 businesses in this region that we think could be the subject of an MBO and there have only been 250 over the past 10 years," he says.

All the city's risk capital firms stress their autonomy from London as one of their main selling points and there is a strong streak of regional chauvinism.

One of the more successful of the small operators, Murray Johnstone, can call on a local pot of £20m and draw on a further £130m from Glasgow. It has underwritten some £30m of deals in the last year alone and is now planning to expand into Birmingham.

"Last year was a record year," says Jonathan Diggines, main director of the three-person office. "I believe that in 12 to 18 months time we will be through the other side but demand is still strong. The conversion rate is always very low but in January, I was approached to consider 16 new deals."

Peter Folkman, of North of England Ventures (NEV), agrees but argues that the current cycle is already drawing to a close. The stock market is sated with flotations and he is now looking for trade buyers. The local market still has reverence for his star deal – NEV recently collected around £9m from the £850,000 equity stake it made in 1990 in Lilliput Lane, the Cumbrian miniature model-maker

"There is still a lot of activity in mergers and acquisitions but we are in exit mode now," he says. Of the 12 investments he has on his books he is looking to sell four. Meanwhile, small operators might expect increasing competition from the clearing banks, which are looking for ways to improve their stretched margins.

Already, Royal Bank of Scotland (RBoS) has set up its own corporate development unit (CDU) with a dozen specialists. The unit established in September last year offers equity as well as debt and is seen as a one-stop shop for companies which want to finance a deal. It has some £50m invested already and Jim Leonard who runs it says: "If the quality is there we will be pitching for it. We will be looking at MBOs and MBIs in Manchester."

On the other hand, he acknowledges the trend among bigger banks to attract higher net worth customers and thus leaving a niche for smaller players. Its heartland may be companies generating between £5m and £30m but RBoS is aiming at the £50m to £100m market. How long the boom will continue is debatable. There is a belief that companies nervous about a tougher tax regime after the next general election will want to complete big deals beforehand.

There is also the looming climate of higher interest rates and inflation. Nevertheless, Tony Hyams of BZW local venture capital bureau believes everything depends on how much money is around and that depends on confidence.

■ MERCHANT BANKS

# A place for the Rothschilds

Made in Manchester is a concept close to the heart of the city's small côterie of merchant banks.

Nearly all the support services – the accountants and lawyers – are not merely within taxi range but within strolling distance. The only lament is that stockmarket funding, whether via flotation or rights issues, still has to be carried out through London brokers.

That parish feel is a factor behind the success of Rothschild, the city's leading merchant bank. So it should be – Nathan Rothschild started business in England in Brown Street, at the heart of Manchester's square half mile, nearly 200 years ago.

The current Rothschild operation, which is one of 32 in more than 20 countries, dates back only 30 years. Until the late 1970s, it was no more than a small representative office. But over the past decade business has boomed. In 1981, there was a staff of 10 and that has grown to 35.

The big success has been Rothschild's treasury operations. It has built up a treasury book of £700m which represents 30 public and large private companies. But it has also been active in advising companies which need to raise cash. It advised on the £9.75m rescue for Everton Football Club, an innovative deal that involved a £4,000 a share rights issue. In total, it claims to account for a quarter of Rothschild's total UK business.

One of the core selling points has been local talent. "Our competition has all been from London and we win out through using local lawyers and local accountants," says Richard Bailey, on of the directors.

"We have a body of local experience that enables us to carry out complex deals from here. There is, of course, an element of chauvinism. If you can present a regional presence people will work with you." The operation has been an inspiration behind current changes in Hill Samuel, which has had a presence in Manchester for 20 years.

Historically a three-person operation with strong back-up in London, Hill Samuel has recently decided to double the staff and upgrade the office.

It is giving the head of the office director status for the first time and has appointed Gerard Connell, a Liverpudlian who is returning to the north west after working for Bankers Trust and, previously, for Hill Samuel in London. He will head the operation from April.

"The point about having me there as a director is to show that I haven't joined to merely answer the telephone. Manchester won't be an outpost but a full merchant bank operation," he says.

Hill Samuel stresses that it can handle all aspects of a complex deal from Manchester and cites its relationship with Go-Ahead, the Gateshead-based bus service operator. The bank provided mezzanine finance – debt subordinated to the claims of senior lenders – as well as senior debt. In May last year, it arranged the stock market flotation of Go-Ahead, the Gateshead-based bus company, which in contrast to a number of disappointing launches saw the shares rise from 120p each at the time to nearly 170p this year.

The sense that Manchester has merchant banking potential has encouraged several new arrivals on the scene. Last year, the ranks were swelled by Henry Ansbacher, the merchant bank which advised Manchester United on its flotation, Singer & Friedlander and Arbuthnot Latham.

Their arrival has gone some way to offsetting the disappointment felt when Standard Chartered, the UK-based international bank, pulled out of the city after more than half a century.

**Peter John**

هكذا من الاجل



Airport growth galvanises consultancies, reports **Ian Hamilton Fazey**

# Links with 60 destinations

The largest and fastest growing firm of professionals in Manchester is not in the city centre, but in offices near Manchester Airport.

It had 30 people in 1988 and has grown to 250 fee earners now. There is much more to come: by 2000, it will have 800 fee-earning professionals. The firm is Andersen Consulting. It has picked Manchester as one of its two European centres of excellence in the UK, the other being in London.

Mr Ken Lacey, an American in charge of the development, says one attraction was Manchester's large industrial market, particularly international companies with a growing inclination to use local professional services. The other was Manchester Airport, now a key factor in Manchester's *development as a European regional capital*, with 95 airlines offering 175 destinations. Although much of this is holiday charter, there is a core of scheduled international traffic to 60 destinations.

Last year's passenger throughput was 12 per cent up at nearly 15m people. Although there has been some recent shuffling between Manchester and London of long-haul routes to Los Angeles and Toronto and suspensions of others for the winter, demand for more scheduled services, particularly to other European regional capitals, is growing.

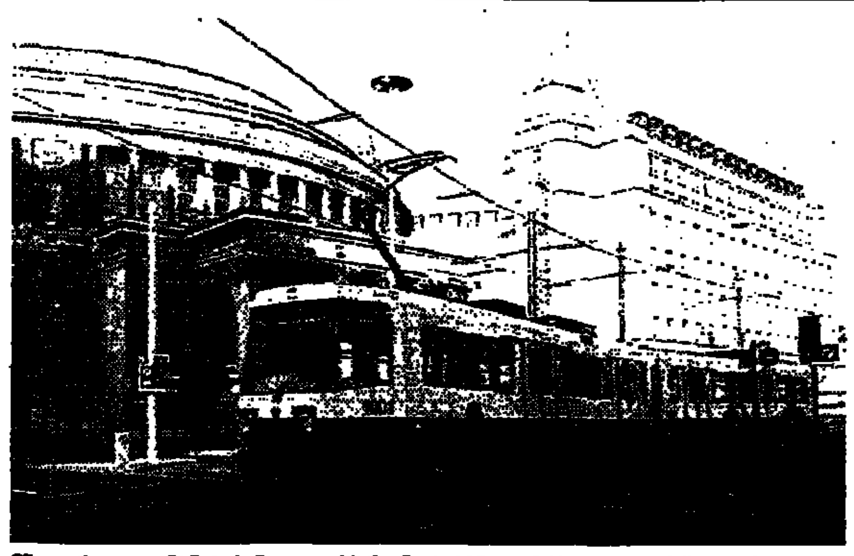
The Brussels and Frankfurt routes have been showing 20 per cent annual increases. Last year, a new route opened to Lille, capital of Le Nord-Pas de Calais region, and another to Vienna. Frequencies were increased on services to Rome, Brussels, Amsterdam and Glasgow.

One reason why Manchester Airport has developed is the road network, which puts 20m people within two hours' drive. Manchester has five motorways feeding into it, its motorway ring will be complete within three years, and the M6-M62 junction is less than 15 miles from the city centre.

This has helped the development of services which sell in national markets. Mr Len Collinson, chairman of Collinson-Grant, one of the UK's most successful independent management consultancies, says location has been central to his business's success since he founded it in 1970.

Collinson-Grant's 31 fee-earners are currently turning over an impressive £6.2m a year, but only 10 per cent is generated locally. The 11 support staff are based in a large old house in Swinton, within five minutes of the interchange linking the M61, M62 and M63.

Collinson Grant also runs the Consortium of European Management Consultants. There is one member firm – all like-sized and like-minded – for each EU country, providing 220 consultants.



City on the move: St Peter's Square, with the Central Library (left) and Town Hall extension

The argument that Manchester's management consultants are the most internationally inclined of all its professionals is also supported by March Consulting, a medium-sized firm based at Salford Quays, which has offices in Prague and Moscow.

Other Manchester-based operations include PA's European process design team, Coopers & Lybrand's European chemical management consultancy division, and KMPG's supervisory management of its international clinical information system.

Manchester is also developing rapidly as a centre for employee benefits and actuarial services, with a competitive market emerging between firms such as Mercers, Watsons and Jardine Reeves Brown.

A measure of the development is the progress of JRB, formed from the merger of Reeves Brown with the employee benefits division of the JIB Group last year. It started with one person in Manchester in 1989. Its complement is now near 40.

*This is another type of consultancy* with national markets, but this one also needs to interrelate locally with the sort of well-resourced financial and professional sector Manchester can now provide.

The same argument is also helping other consultancy services develop in areas such as financial planning, offering an bespoke, independent alternative to big firms.

Thomson's, for example, is headquartered in Manchester, where it was started by Mr John Dyson in 1969. It now has offices in London, Leeds and Llandudno, a staff of 46, and a steady feed of work from solicitors and accountants that has pushed its turnover to £3.2m.

■ Law firms win business from London, writes **Ian Hamilton Fazey**

# Lower fees reap rewards

Manchester's legal services have been working hard to catch up with Leeds.

It has long niggled many Manchester professionals that the city's Yorkshire rival seemed to have stolen a march on every other regional centre in legal services, with its "big five" among the largest corporate law firms in the UK.

However, Manchester's catch up bid seems to be working, certainly in terms of perceived quality. Apart from anything else, two of the Leeds big five have opened in Manchester and are growing rapidly. Two others have Manchester associates via the Eversheds and Norton Rose M5 groupings of regionally-based firms.

Addleshaw Sons & Latham, one of this pair, has in any event long been acknowledged nationally as Manchester's leading indigenous law firm.

Mr Paul Lee, Addleshaws' managing partner, says it is too early to say what long-term impact the arrival in Manchester from Leeds of Hammond Suddards and Dibb Lupton Broomhead will have, but he acknowledges the short-term competitive pressure.

He is comfortable enough with Addleshaws' performance to reveal current annual turnover at £13m from 260 staff, 125 of them fee earners. This compares with about £10m when the recession started.

Hammond Suddards acknowledges that Addleshaws sets the standard for competition in the city. Mr Richard Burns moved from Leeds to run the Manchester practice and has seen staff numbers grow from 25 in 1993 to 89 now, 38 of them fee earners. More than £1.1m has so far been invested in the venture.

Things have gone better than expected. "We have smashed our budgets. We made a profit in our first year, when we expected a loss. Our turnover here has risen more than three times to over £5m," Mr Burns says.

"Manchester may have more lawyers per head than anywhere else, but were they organised to give the sort of service a city like Manchester needs? There are now four big players here – Addleshaws, Dibb Lupton Broomhead, Eversheds (which is built upon the old Manchester firm of Alexander Tatham) and ourselves."

All four see their critical mass providing a strength in depth which increasingly more corporate clients will find harder to resist. Understandably, the smaller firms are irritated by this, particularly since there some good ones in Manchester, as even the heavyweights acknowledge.

As some of them point out, there has to be enough choice to avert conflicts of interest, while the diverse north-west economy is riddled with hundreds of medium-sized companies which want to shop around and are nervous of being overawed by the giants.

There are niche players, such as Berg & Co, which specialises in employment law, and has 42 Manchester staff, half of them lawyers. Chaffe Street, with only 34 staff and 10 fee earners, has a good name in venture capital deals.

Alexander Harris is known for medical negligence. Lace Mawer, formed from the merger of two well-established Manchester and Liverpool firms with long-standing client bases, operates across the north-west region. Mace & Jones, a Liverpool employment law and compensation specialist, also runs a Manchester office.

Burton Copeland has established a name as one of Britain's leading specialists in white collar crime. Some Manchester players have internationally known names, such as that of Mr Rodger Pannone, who, with partners, runs practices in Manchester and London.

Alsop Wilkinson, which moved aggressively and successfully into Manchester from its Liverpool base in the 1980s, is now described by competitors as more of a "London" firm, but its Manchester operation retains an entrepreneurial flair that puts it in a national league in mergers and acquisitions.

Overall, legal services in Greater Manchester employ more than 6,000 people. There are more than 700 firms of solicitors and over 500 barristers.

Some firms trade on not being giants. For example, for Mr Arran Wacks – who formed Wacks Caller with Mr Martin Caller less than 10 years ago – making clients comfortable is a prime selling point. "We are business people who practise law. We like clients to feel we appreciate what they want, rather than tell them what's good for them," he says. "Being big is not a motivation in itself, but it is inevitable we will grow because a lot of young lawyers want to join us."

Wacks Caller is 60 strong, with 27 fee earners. It is in pursuit of Mr Wacks's old firm, Halliwell Landau, which he spun out of in 1986. "We were 10 years behind them when I started. It's down to about four years now," Mr Wacks says.

Halliwells, which started in 1975, is itself a hefty operator now, with 140 staff, 75 of them lawyers and 23 of them partners. This is hardly small by any standard, suggesting a turnover well in excess of £7m if recovered fees are similar to Addleshaws', as they ought to be in a highly competitive marketplace.

Nevertheless, the arrival of Hammond Suddards and Dibb Lupton Broomhead has *boosted Manchester's national* credibility, according to Mr Paul Nicholls, the latter's partner-in-charge. He himself moved from London, while Dibbs scored a considerable coup in capturing Mr Will Holt, one of the profession's most renowned deal-makers, from Alsops.

Dibb Lupton Broomhead, will take on its 50th lawyer in Manchester this month, bringing its total staff in the city to 100.

Like all the leading firms, it is attracting London lawyers – such as Mr Nick Fisher, a banking specialist – who now see equally challenging careers ahead of them, but at northern prices.

Costs are the mainspring of the expansion. Manchester's *legal fees range from £180 an* hour for a senior partner down to £70 for a junior lawyer. This is about half London's levels, although Mr Holt says most work is now done for pre-quoted, all-inclusive totals, not charged by the hour.

"London is losing work," Mr Nicholls says. "What we give is the best possible advice – as good as you can get anywhere – but in a low-cost environment." With the right infrastructure now in place, there could be a lot of growth to come.

■ ACCOUNTANCY

# A hive of activity

Britain's "big six" accountants are all present in force in Manchester. Arthur Andersen, Coopers & Lybrand, Ernst & Young, KPMG, Price Waterhouse and Touche Ross have large operations, which contribute to their combined north-west fee income of more than £167m a year, writes **IAN HAMILTON FAZEY**.

They compete for the big-company audit base and also in corporate community *involvement activities such as* support of the arts, local authority partnerships, universities, statistical research, economic analysis, and bids for Olympic and Commonwealth games. They are also prominent in recruitment and training of new accountants.

But there are more than 50 accountancy firms staffed by more than 6,500 people in Greater Manchester. Many are small practices, but there is a vigorous group between the two extremes where a fight has broken out with some of the giants for market share.

The market is the north-west's diverse array of owner-managed businesses, hundreds of which are emerging strongly from recession.

KPMG's Manchester office last month published research analysing the latest results filed by the top 500. They turned over more than £9bn between them and made nearly £300m in pre-tax profits.

Compared with a similar 300-company study of quoted companies in the region, those in private ownership showed dou*ble the rate of sales growth*, nearly five times the rate of profits improvement and were creating new jobs as fast as the quoted companies were shedding them. This is the seed corn for future professional advice, corporate finance, management consultancy, and big audit fees.

Accountants are best placed to get in first because all companies need audit and tax advice. KPMG's research stems from its recent appointment of Mr Tim Beer, one of its most experienced partners, to lead its marketing effort among the north-west's owner-managed businesses.

Ernst & Young's efforts owe much to the presence of Mr Mike Davis, who invented the concept of large accountancy firms developing special units for small businesses after a two-year secondment from Arthur Young to the DTI to study the problem more than 15 years ago.

Arthur Young started in Manchester in a lock-up office in the early 1970s. Its first recruit, Mr Bernard Whewell, is now Ernst & Young's managing partner there. Mr Davis was despatched from London in 1980 to develop his idea and has never returned south.

The big five, however, face stiff competition. Local companies usually use local accountants and, for comfort, many stick with their own kind in terms of size. Kidson Impey, although now a second division national firm, grew from Kidsons, which was founded in Manchester in 1875.

Mr Graham Kidson, great-great-grandson of the founder and a partner today, says 60 per cent of clients are passed on from generation to generation. There is fierce poaching by big firms offering cheaper audits "but they don't offer our intimate style, which includes being able to ring up the senior partner at home at 9pm at the weekend".

"Public companies are about profit; private companies are about taxation, succession, generation planning and trusts," says Mr Charles Lucas, Kidson Impey's managing partner. "We don't believe in accountants branching out. We stick to what we know."

BDO Stoy Hayward offers a different approach by trying to provide owner-manager clients with sources of venture and development capital they would be unable to find themselves. It has a good base of north-west clients because it grew out of Elliott Hewitson, which started in Manchester in 1968 and then became Elliott Templeton Sankey.

Mr Ian Templeton, managing partner, says the firm has developed skills at securing pre-flotation finance from leading institutions and helping smaller growing businesses raise relatively small amounts of capital via private place*ments among the well-off*.

The firm was involved in eight management buyouts out of Manchester last year and 10 big development capital deals. Its flotations record includes Tepnel Diagnostics and Aromascan.

It is against this background that Haines Watts, which specialises in small businesses and has done well in West Yorkshire, has opened in Manchester. Moore Stephens, which is in a similar market, has also expanded its north-west network of formerly independent small practices.

Meanwhile, everyone is keeping their eyes on Latham Crossley & Davis, which is headquartered in Lancashire but active in the Greater Manchester owner-managed business battleground. Its fee income has passed £7m a year and it was recently ranked by the FT as the fastest-growing "Top 30" accountancy firm in Britain.



**Peter John** examines the scope of the foreign banking community

# Trade and local loyalties

What is the difference between an ethnic banker and an international banker? It may sound like the feed line for a Bernard Manning joke, but in Manchester it is really a dilemma of perception.

There are a lot of banks in the city; 60 at the last count. About half of them could be called ethnic or they could be called international. The distinction has, of course, nothing to do with the origin of the customers; rather it has to do with the breadth and size of the business.

Yet both classes appear to be avoiding the soggy middle ground and, in spite of some heavyweight withdrawals, are quietly ploughing a successful furrow.

This fine line between the two categories is neatly demonstrated by Svenska Handelsbanken, the Swedish clearer which has a small operation outside the city's square half mile and down towards the Granada studios and Coronation Street.

Many might assume it is the classic international operation but Derek Burgess, who runs the six-year old branch, stresses that it provides a far more targeted service.

It is more of an ethnic bank than, say, Bank Hapoalim of Israel or Fuji Bank of Japan which both have a broad international client base. And yet it might be perceived as more international than Bank of China, which caters for the needs of Manchester's 20,000 Chinese.

"We focus exclusively on Nordic based business – either subsidiaries of Nordic companies which operate in Britain, UK companies which have subsidiaries in the Nordic region or UK companies which trade in the Nordic region," he says.

Mr Burgess can offer cheque accounts loans and foreign exchange business as well as credit checks on Swedish companies. UK banks have a minimal presence in Scandinavia because of historic trade barriers so Svenska, he argues, provides one of the few ways of cutting out expensive agents and middlemen.

Nevertheless, it has been a hard slog. The office was born just as the 1980s boom began to die. "The first four years were very difficult," he says. "A whole host of banks withdrew, and the market is very sensitive to the here-today-gone-tomorrow approach."

It is only in the past two years that business has picked up and during that time Svenska has acquired around 70 clients, a respectable list but still well short of the 350 it hopes to attract.

The question must be whether, having suffered from the late 1980s recession, Svenska will be able build critical mass throughout the next one.

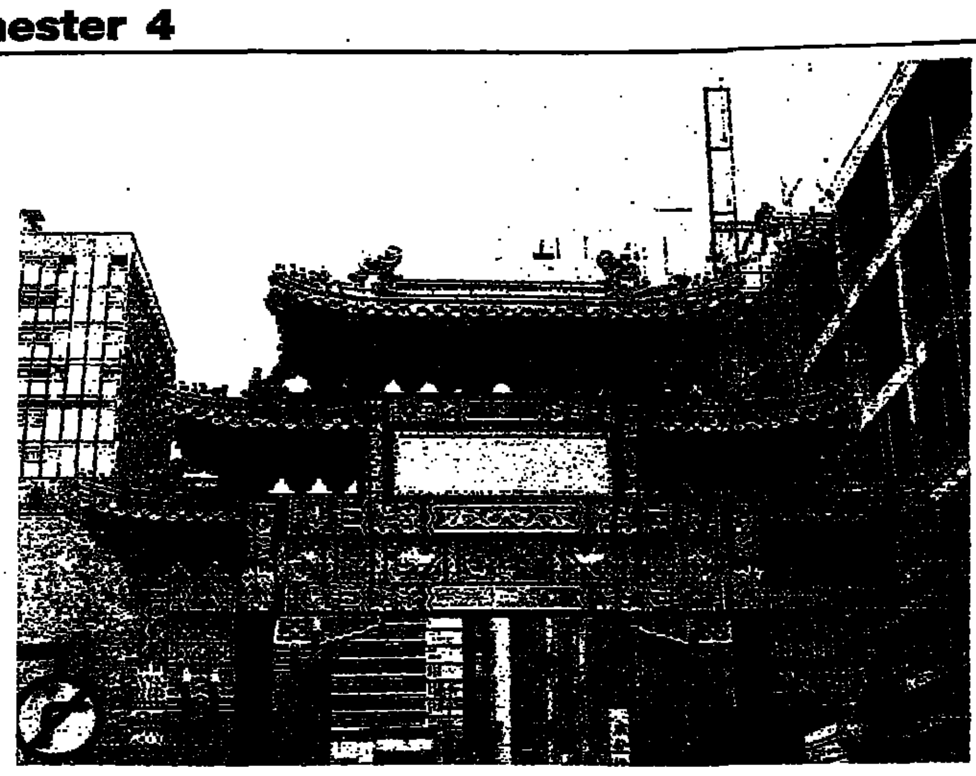
Mr Burgess is unconcerned and his confidence has convinced Svenska to open another branch in Birmingham. "We are not a mature market. We have only 10 per cent of the target so the next 20 per cent will be easy," he promises.

The hurdle that the bank has overcome, he says, is the nervousness over stability. Nobody wants to deal with a bank that will pull out when the going gets rough and nerves were exposed last year with a couple of high profile closures.

**Manchester's leading foreign and ethnic banks**

- ☐ Kredietbank, Belgium
- ☐ ABN Amro, Netherlands
- ☐ BNP, France
- ☐ Crédit Lyonnais, France
- ☐ Société Générale, France
- ☐ Hypo, Germany
- ☐ Hungarian International
- ☐ Svenska Handelsbanken, Sweden
- ☐ Allied Irish Bank
- ☐ Bank of Ireland
- ☐ Bank of Cyprus
- ☐ Bank Leumi, Israel
- ☐ Bank Hapoalim, Israel
- ☐ Bank of China
- ☐ Bank of India
- ☐ Bank of Pakistan
- ☐ Habib Bank, Pakistan
- ☐ Sonali Bank, Bangladesh
- ☐ Hongkong & Shanghai
- ☐ Fuji Bank, Japan
- ☐ Sanwa Bank, Japan

Source: MANMBA



The Dragon Gate in Manchester's China Town: 20,000 residents use the Bank of China Picture: Mike Arron

The most shocking was the decision by Standard Chartered, the international UK bank, to shut its Manchester branch after more than half a century in the city.

The closure was a severe blow to city pride and many bankers prefer to dwell on the record of Société Générale which has recently celebrated its 25th anniversary and has been involved in some £315m of syndicated deals over the past three years.

With classic understatement, David Thomas, SocGen's regional manager, comments: "It hasn't been go-go but reasonably steady. I think it's fair to say that there haven't been too many horrendously bad debts among the international banks here."

ABN Amro, the Dutch Bank, is keen to compare its record with Societé Générale. Based in the Manchester for only five years less than the French bank it has about 80 corporate clients with turnovers that stretch from £25m a year all the way to £5bn.

Undoubtedly one of Manchester's leading international banks, it has 45 staff and offers a full service from trade finance and treasury through to syndications and structured finance.

Ben Kalkman, who moved over from ABN's Stockholm branch two and a half years ago to run the Manchester operation, believes that although the city has made huge strides in the past 10 years – and especially the past two years – it is still held back by its own modesty.

"It is continually underselling itself. We have only just realised that and started teaming up with industry and local government to sell Manchester better."

He laments the passing of Standard Chartered which has narrowed the competition in the city particularly as HSBC has tended to concentrate more of its fire power on clearing operations since its takeover of Midland.

War breaks out among the stockbrokers, says **Ian Hamilton Fazey**

# Gentlemen lose their cool

Suddenly, war has broken out in what always seemed to be a polite and gentlemanly world of Manchester stockbroking. Henry Cooke Lumsden, which has long dominated the local market and basked comfortably in its reputation as "the Cazenove of the north", is under fierce attack.

For Manchester has been invaded by Cooke's Birmingham counterpart, Albert E. Sharp. The two were hoping to merge, but negotiations broke down in 1993 and Sharp has set up the nucleus of what it hopes will become a fully fledged rival. Each side has a different version of what happened.

Mr Peter Reynolds, a Sharp director, says there was a problem about "personalities at the top" of the two firms, so the idea of Sharp's having a traditional office in Manchester followed.

Mr Field Walton, who has since been brought in as chairman of Henry Cooke and has shaken the firm up, questions the sequence of events. "Even while they were negotiating and learning things about this business, they were running a parallel head-hunting operation from a Manchester hotel," he says.

The secret leaked out because while some Cooke people were receptive to Sharp's approach, others were not and told their colleagues. Many at Cooke's thought mutual trust – an essential for a successful marriage – would be impossible to build.

Confrontation replaced negotiation. Sharp opened in Manchester in 1993 with two prize catches from Cooke – Mr James Warhust, a vastly experienced analyst, and Mr Darren Mercer, a young thruster. They brought four high technology companies with them for which they acted as corporate brokers.

The head-hunting operation was not confined to Cooke. Mr Clive Weston left Charlton Seal – part of Wise Speke – Manchester's second largest broker, to become managing director of Sharp's new office. Mr John Scott left with him.

Charlton Seal sent both men home on gardening leave the moment they said they intended to go and mounted a legal action to enforce their contracts. These laid down a six-month break before they could do similar work for a competitor.

A compromise was reached, but Sharp's Manchester opening had an edge of bitterness to it, although Mr Walton has now turned it to advantage in forcing change at Henry Cooke. "The plus side is that everyone now knows they are in a contest. There is some justification in the view that Cooke's was very sleepy before. Sharp's arrival has put everyone on their mettle," he says.

> Henry Cooke Lumsden, for long the dominant Manchester firm, finds itself under sudden attack

In an attack on administrative costs, he has abolished the chief executive's post and split the business into profit centres, each run by a fee earner. "People are going to be rewarded according to what they achieve," he says. A portion of salaries has been every deferred till better times so as to improve the business's financial leeway.

A former Cazenove broker and rugby prop-forward for Leicester, Mr Walton's blunt style has upset some people, but he is half-way to getting £1.5m a year of overheads and direct costs out of the business, which still has a cost base of between £9m and £10m a year.

He blames high overheads on Cooke's disastrous foray into banking during the 1980s lending boom. This was Edington, a bank Cooke helped set up and partly merged with. It had to close in 1991 after an unexpected rash of withdrawals by local authorities during a general crisis of confidence in secondary banking. Mr Walton says Edington brought "bankers' attitudes towards plush surroundings" into a traditional, culturally leaner broking firm.

To the credit of Mr David Adams, Cooke's former chief executive – who left last year – the timing of Edington's closure allowed an orderly liquidation, so depositors have so far got most of their money back. This has helped preserve Cooke's reputation in the face of London rumour-mongering about the business's stability, but the problems of low stock exchange trading volumes during the recession hit hard, giving Cooke's an appearance of vulnerability and attracting competition.

Mr Walton says Cooke is basically sound, with £2.7bn of funds under management, £600m of it discretionary. This compares with Mr Reynolds's £2bn for Sharp, of which £800m is discretionary.

Meanwhile, at Charlton Seal, Mr Michael Seal and Mr Robert Race are going to make sure neither the Cooke nor Sharp operations have their own way. They have the resources of the Wise Speke group behind and a long local tradition in Manchester dating from 1840.

Mr Race is responsible for 34 corporate finance clients, while Mr Seal runs a well established base of private client business, trust operations and endowment funds for charities and health authorities. As with all number twos in any market, Mr Seal believes the firm already competes well because it has always had to appear to try harder than its dominant rival. "It isn't a cosy world. We have been fighting for years and will continue to do well," he says.

Nor is it a three-horse race. There are 46 firms of stockbrokers in north-west England, 15 of them in Manchester. Significantly, Cazenove has opened in Chester, the capital of a county with one the north's largest concentrations of individuals with high net worth.

> Sharp of Birmingham has gone on the offensive after a planned merger with Cooke's fell through

Mr Tim Timotheou, divisional director of Quilter Goodison – which is expanding in Manchester to attack the private client, trust and charities sectors – says: "The market is not big enough at the moment. We believe there will be a flight to quality, with survival of the fittest."

He thinks the winners will be those with deep enough pockets to stand the cash flow disruption of an ever-shorter rolling settlement period and a switch to fee-based earnings rather than commission.

In the end, however, the clients will decide. Sir David Trippier, the former government minister, stockbroker, and now chairman of the Davenham Group, thinks the right terriers will always attract admirers. Davenham, a merchant bank for small business, owns Ireland Stephens, a small Manchester stockbroker.

Sir David is head-hunting and hopes to develop Ireland Stephens' corporate finance operations. As Mr Seal points out, there are links to develop and exploit between corporate finance and wealthy private clients because the former often opens potentially lucrative investment opportunities for the latter, especially among smaller companies local brokers know well.

It looks like being a long war.



صكرا من الاجل